

3. Environment-related Factors The nature of environment facing an organisation determines how its appraisal could be done. The nature of the environment depends on its complexity, volatility or turbulence, hostility and diversity. Information processing perspectives suggest that scanning activity will increase in response to increasing environmental uncertainty. Social cognition perspectives suggest that scanning decreases at high and low levels of uncertainty since useful information is either unattainable or is already known.²³

In sum, how well environmental appraisal is done depends on the strategists, their organisations and the environment in which their organisations exist. Before strategists can structure the environmental appraisal, it is necessary to identify the environmental factors.

Identifying the Environmental Factors

Environmental scanning results in a mass of information related to different sectors of the environment. Without a technique to deal with this information, a strategist would be at a loss to comprehend and analyse the environmental influences. These influences, as we have seen, are the events, trends, issues and expectations of different interested groups. A feasible approach to identify the important environmental factors is to test each factor with regard to its impact on the business of the organisation and the probability of such an impact. Exhibit 3.14 provides a matrix which can help a strategist identify the high priority environmental factors (termed as issues by Boulton).

Exhibit 3.14 Identifying high priority environmental issues

Probability of impact	Impact on Business		
	High	Medium	Low
High	Critical	High priority	Low priority
Medium	High priority	High priority	Low priority
Low	To be watched	Low priority	Low priority

Source: Adapted from William R. Boulton, *Business Policy: The Art of Strategic Management*, New York, Macmillan Publishing Co., 1984, p.120.

Environmental scanning leads to the identification of many issues that affect the organisation. These issues could be judged on the basis of the intensity of their impact on the business of the organisation and the relative probability of such an impact. In such a manner, environmental issues (and all the factors) could be distributed among the nine cells of the matrix. The issues which are most likely to have a high level of impact on the organisations are the critical issues and need immediate attention of the strategists. High priority issues are those which have a medium to a high probability of impact, while those currently having a high level of impact but a low probability of occurrence need to be kept under watch. All other issues could be considered as being of low priority but still requiring continuous monitoring as conditions may change later. In this way, strategists could narrow the range of environmental issues they have to focus their attention upon. These issues help in structuring of the environmental appraisal, when divided into opportunities and threats and allocated to different sectors of the environment.

Structuring Environmental Appraisal

The identification of environmental issues is helpful in structuring the environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie. Structuring the environmental appraisal is a difficult process as environmental issues do not lend themselves to a

straightforward classification into neat categories. An issue may arise simultaneously from more than one sector of the environment. Strategists have to use their experience and judgement to place the different environmental issues where they mainly belong, so that clarity emerges.

There are many techniques available to structure the environmental appraisal. One such technique, suggested by Glueck, is that of preparing an environmental threat and opportunity profile (ETOP) for an organisation.

The preparation of an ETOP involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation. A comprehensive ETOP requires subdividing each environmental sector into subfactors and then the impact of each subfactor on the organisation is described in the form of a statement. A summary ETOP may only show the major factors for the sake of simplicity. Exhibit 3.15 provides an example of an ETOP prepared for an established company which is in the bicycle industry. The main business of the company is in sports cycle manufacturing for the domestic and exports market. This example relates to a hypothetical company but the illustration is realistic and based on the current Indian business environment.

Exhibit 3.15 Environment threat and opportunity profile (ETOP) for a bicycle company *Glueck*

Environmental Sectors	Nature of impact	Impact of each sector
Economic	↑	Growing affluence among urban consumers; rising disposable incomes and living standards.
Market	→	Organised sector a virtual oligopoly with four major manufacturers, buyers critical and better informed; Overall industry growth rate not encouraging; Growth rate for niche segments like sports, trekking, racing and fancy city cycles is high; largely unsaturated demand in niche segments; slender margins; traditional distribution systems.
International	↓	Global imports growing but India's share shrinking; India second globally as manufacturer, consumer and exporter after China; major importers are the US and EU but India exports mainly to Africa; threat of cheap Chinese imports.
Political	→	Bicycle principal mode of transport for low and lower-middle income; industry too small for any major political attention.
Regulatory	→	Parts and components reserved for small-scale industry, bicycle industry a thrust area for exports; regulatory restrictions heavy; duty drawback rates lowered.
Social	↑	Environment- and health-friendly transport option; wide usage like commuting to work or school and as recreation and physical fitness equipment; easier negotiating traffic congestions; customer preference for sports cycles which are easy to ride and durable.
Supplier	→	Mostly ancillaries and associated companies in small-scale sector supply parts and components; rising steel prices; increasing use of aluminium; industrial concentration in Punjab and Tamilnadu.
Technological	↑	Technological upgradation of industry in progress; import of machinery simple; product innovations ongoing such as battery-operated and lightweight foldable cycles.

Up arrows indicate favourable impact; down arrows indicate unfavourable impact, while horizontal arrows indicate a neutral impact.

As observed from Exhibit 3.15, sports cycle manufacturing is an attractive proposition due to the many opportunities operating in the environment. Prospects in the economic, social and technological sectors are bright. Market environment can throw up opportunities in the niche segment that the company operates in. The company can capitalise on the burgeoning demand by taking advantage of the various government policies and concessions that still exist despite the low attention value of the industry. It can also take advantage of the high exports potential that already exists and has not been adequately capitalised upon. Since the company is an established manufacturer of bicycles, it has a favourable supplier environment with traditional ties binding it to its vendors. But contrast the implications of this ETOP for a new manufacturer, who is planning to enter this industry. Though the economic, social and technological environment sectors 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, have access to the latest technology have the facilities to use it.

The preparation of an ETOP provides a clear picture to the strategists about which sectors and the different factors in each sector, have a favourable impact on the organisation. By the means of an ETOP, the organisation knows where it stands with respect to its environment. Obviously, such an understanding can be of a great help to an organisation in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment.

Before the formulation of strategies can be undertaken, strategists have to assess whether the organisation has the required strengths or whether it has weaknesses which can affect its capability of taking advantage of the opportunities. This assessment is done through an analysis of the strengths and weaknesses of the organisation and forms a part of the SWOT analysis. The strengths and weaknesses can be analysed through an organisational appraisal, which is the subject matter of the next chapter.