

UNIT 1: BUSINESS AND THE BUSINESS ENVIRONMENT

- * LO 3: Use contemporary examples to demonstrate both the positive and negative influence/impact the macro environment has on business operations

UNIT 1: BUSINESS AND THE BUSINESS ENVIRONMENT

- * M3: Apply appropriately the PESTLE model to support a detailed analysis of the macro environment within an organization

PESTLE FRAMEWORK

- * Strategic management is useful to all enterprises. It's a system focused on planning and monitoring how corporations meet objectives.
- * The core of an organization must be assessed to include questions such as:-
 - * What strategies are used?
 - * What technologies are available?
 - * Which resources are valuable are considered along with analysis?
 - * How external factors will affect the ways in which a firm concludes business?
- * In an effort to answer the questions above the political, economic, social, technological, legal and environmental (**PESTLE**) type of analysis can be used.

PESTLE FRAMEWORK

- * When discussing about strategic planning, there are a few effective tools that can be used in order to have an overview of the business environment. Porter's five forces model will be used to discuss the PESTEL analysis. The PESTEL or PESTLE analysis is an abbreviation for ***Political, Economic, Social, Technological, Environmental and Legal***.
- * By analysing these 6 categories (the external environment), the strategic planning process will be more accurate and it will offer many different angles that can be used to keep track when designing the strategy of the company.

PESTLE FRAMEWORK

- * **Political:** Refers to the specific means through which the government can influence a certain industry's economy. For example, the government may impose trade restrictions for the products a company exports. In this case, the business will not be profitable in that country and will probably fail.
- * Other factors, also recommended by Strategic management insight, which managers can examine when analysing the Political environment are:

PESTLE FRAMEWORK

| Political factors | |
|---|--|
| Government stability and likely changes | Environmental Law |
| Bureaucracy | Education Law |
| Corruption level | Anti-trust law |
| Tax policy (rates and incentives) | Discrimination law |
| Freedom of press | Copyright, patents / Intellectual property law |
| Regulation/de-regulation | Consumer protection and e-commerce |
| Trade control | Employment law |
| Import restrictions (quality and quantity) | Health and safety law |
| Tariffs | Data protection law |
| Competition regulation | Laws regulating environment pollution |
| Government involvement in trade unions and agreements | |

PESTLE FRAMEWORK

- * **Economic factors** include growth, interest rates and the inflation rate of an economy. These factors have a major impact on how businesses operate and make decisions. For example, interest rates may influence an enterprise's cost of capital and therefore they may influence to what extent a company grows and expands. Exchange rates may affect the costs of export goods and the supply and prices of imported goods.

PESTLE FRAMEWORK

- * **Social:** Refers to the factors that influence the demographic and cultural aspects of the external environment. An example might be the population education level. If this factor is high and your company is developing IT products, it will probably be a good idea to develop the business in that certain area. Other factors, also recommended by Strategic management insight, which managers can take into consideration when analysing the Social environment can be seeing on the next slide.

PESTLE FRAMEWORK

| Social factors | |
|---|---|
| Health consciousness | Attitudes toward "green" or ecological products |
| Education level | Attitudes toward and support for renewable energy |
| Attitudes toward imported goods and services | Population growth rate |
| Attitudes toward work, leisure, career and retirement | Immigration and emigration rates |
| Attitudes toward product quality and customer service | Age distribution and life expectancy rates |
| Attitudes toward saving and investing | Sex distribution |
| Emphasis on safety | Average disposable income level |
| Lifestyles | Social classes |
| Buying habits | Family size and structure |
| Religion and beliefs | Minorities |

PESTLE FRAMEWORK

- * It might be unclear how **technological** factors can directly affect business, unless you take a step back and look at all of the technology that's used in day-to-day life. Think about the machines which are used to print on the t-shirts you buy, the computer servers which are used to keep up the website(s) you own, or the fuel used to power the car(s) you drive. Technology hugely dictates the way many things are done, in business or otherwise.

PESTLE FRAMEWORK

- * The automation of many unskilled tasks can allow companies to replace human production lines with entirely machine ones. This can reduce costs for manufacturers, distributors, supermarkets, and many other different businesses. On the flip side, the gradual increase in job automation might not be such a great thing for job search firms.

PESTLE FRAMEWORK

- * Internet connectivity this is undoubtable that in recent years global internet connectivity has been on the rise. This presents an even larger market for many companies who use the internet to connect with their customers. On the flip side though, a global rise in internet connectivity might mean less interest in traditional communication means, which is a negative consequence for some telephone service providers will have to change their offerings to stay relevant, while paper-and-ink printing companies might receive less business.

PESTLE FRAMEWORK

- * **Legal** factors can decide whether or not there is a business behind selling a certain product (perhaps drugs, or sharp objects), and can also affect the mechanisms through which a company stocks their inventory or interacts with the customer. Consumer law (alternatively known as consumer protection) is designed to protect consumers from fraudulent companies or practices, and preserve their rights in the marketplace.

PESTLE FRAMEWORK

- * The main question that can be asked by consumers is “How does this affect businesses though?”. In an effort to answer the question, large companies have to dedicate a fair amount of their resources into putting out detailed information about their products and policies. On the other hand, consumer law in itself makes a business for some private watchdog companies.

PESTLE FRAMEWORK

- * Employment law, also known as labour law, dictates how companies' employees should be treated. Minimum wage laws can limit the various different employment possibilities a company can offer, child labour laws can affect the way tight-knit home businesses in third world countries operate, and dismissal laws can make firing employees (for whatever reason, perhaps unproductivity) that bit harder.

PESTLE FRAMEWORK

- * **Environment** analysis is the study of the organizational environment to pinpoint environmental factors that can significantly influence organizational operations. Environmental analysis is a critical component of strategic management because it produces much of the information, which is, requires to assess the outlook for the future.

PESTLE FRAMEWORK

- * The environment is a significant source of change. Some organizations become victims of change, while others use change to their advantage. Organizations are more likely to be able to turn change to their advantage if they are forewarned. This is a major purpose of the environmental analysis process.

PESTLE FRAMEWORK

- * In order to perform an environmental analysis efficiently and effectively, a manager must thoroughly understand how organizational environments are structured.
- * The environmental analysis phase of the strategic management process seeks to uncover relevant information rather than extensive information; it rewards the pursuit of quality rather than quantity.

PESTLE FRAMEWORK

- * Scanning and forecasting and ensuring that information is available concerning the defined environment, interpreting packaging information into forms that are useful for Planning. Every organization is subject to general trends which are felt in many industries and which are not usually amenable to influence by a single organization.

PESTLE FRAMEWORK

- * The PESTLE analysis is a useful tool for understanding market growth or decline, and as such the position, potential and direction for a business. A PESTLE analysis is a business measurement tool. This research dealt about the important PESTLE analysis which is very essential for strategic management.

Reference

- * Frue, K. (2018). PESTLE Analysis in Strategic Management. [online] PESTLE Analysis. Available at: <https://pestleanalysis.com/pestle-analysis-in-strategic-management/> [Accessed 4 Nov. 2018].
- * Performancemagazine.org. (2018). A strategic management framework: PESTEL. [online] Available at: <https://www.performancemagazine.org/a-strategic-management-framework-pestel/> [Accessed 4 Nov. 2018].
- * ToolsHero. (2018). PEST Analysis, a powerful macro environment analysis | ToolsHero. [online] Available at: <https://www.toolshero.com/marketing/pest-analysis/> [Accessed 4 Nov. 2018].

Reference

- * **Gupta, A. (2013). Environment & PEST Analysis: An Approach to External Business Environment. International Journal of Modern Social Sciences, 2(1), pp.34-43**
- * **GroupMap - Collaborative Brainstorming and Decision Making. (2018). PESTLE Analysis, PESTLE Analysis Template - GroupMap. [online] Available at: <https://www.groupmap.com/map-templates/pestle-analysis/> [Accessed 4 Nov. 2018].**