

Strategic Management

Lecture Four: External Environmental Scanning

Lecturer: Stephen Githii

Introduction

In our last lecture we looked at internal environmental scanning. We noted that it focuses on resources, capabilities, culture and structure, all of which can be a strength or a weakness. We also looked at the tools that are at your disposal to carry out the analysis such as SWOT, VRIO and Value chain analysis. We concluded that to identify your weakness or strengths internal analysis is crucial. In the current lecture we will change gear and look at the environment outside the firm.

Learning Outcomes

- Point out examples of companies that were successful or failed to scan their external environment.
- Be able to define external environmental scanning
- Be able to use different tools to carry out the scanning

Down the Memory Lane



Image source: commons.wikimedia.org

The rise of the automobile in the late 19th and early 20th centuries disrupted the once-thriving carriage-making industry. Skilled artisans, deeply invested in their craft, initially dismissed the "horseless carriage," failing to recognize its transformative impact. As demand for these carriages increased, many businesses collapsed.

Key lesson:

External factors—technological, economic, political, and social—can reshape industries, making adaptability essential for survival in a changing world.

Opening Case



Image source: commons.wikimedia.org

Success Story

For decades, the Yellow Pages was a household staple, the go-to resource for finding businesses. Thick, familiar directories landed on doorsteps, connecting customers to local services. But as the internet took hold, the way people searched for information changed. The once-indispensable book grew less relevant.

Rather than clinging to the past, Yellow Pages recognized the shift. In 2017, CEO Richard Hanscott announced a bold decision: by 2019, the iconic print directory would be no more. The company would go fully digital, transforming into Yell.com. The core mission remained

connecting businesses with customers—but now through a faster, more accessible online platform (Adopt or Die nd).

Reflection

- Yellow Pages' story is one of adaptation.
- By embracing digital transformation, it ensured its survival in a world where only those willing to evolve stay relevant.
- Can you name companies that failed to change when their external environment was changing?

Definition of External Environmental Scanning

From the foregoing examples and within the confines of strategic management we can confidently say that external environmental scanning is a **systematic** and **ongoing** process of **gathering, analyzing, and interpreting** information about factors external to an organization that could potentially impact its **current** and **future** operations, performance, and strategic direction

- **Systematic:** Meaning it is done in a structured manner; it is not done haphazardly but follows a defined process
- **On going-** it is continuous since the elements of the environment are always evolving
- **Gathering-** It entails collecting data and information using different methods of information gathering
- **Analyzing-** Data collected must be processed to give us trends or into information that we can be able to draw insights from.
- **Interpreting-** this entails making sense of the information or insights to guide decision-making
- **Current-** the insights from the exercise will guide our action now
- **Future-** the insights will also guide our future choices.

Importance of External Environmental Scanning

- **Informed Decision-Making** – Provides critical insights for strategic planning in a constantly evolving market.

- **Proactive Adaptation** – Helps businesses anticipate changes and adjust strategies before disruptions occur like we say in yellow page case.
- **Enhanced Agility and Resilience** – Enables organizations to navigate uncertainties and stay competitive.
- **Risk Identification and Mitigation** – Detects potential threats early, allowing for timely countermeasures.
- **Opportunity Recognition** – Highlights emerging trends and unmet market needs, fostering innovation, like was the case for Netflix that we talked about in lecture two.
- **Competitive Advantage** – Keeps businesses ahead by adapting to industry shifts and customer preferences.
- **Efficient Resource Allocation** – Guides investment in areas with the highest growth potential.
- **Strategic Planning Support** – Acts as a compass for long-term business growth and sustainability.

Essentials Tools and Framework for External Environmental Scanning

Businesses utilize various tools and frameworks that provide a structured approach to analyzing the complex external landscape. In this section we will focus on three main tools.

1. PESTEL Analysis

This is a widely used framework to identify macro factors that can impact a firm.

- **Political** – Government policies, political stability, trade regulations, taxation.
- **Economic** – Economic growth, inflation, interest rates, unemployment.
- **Social** – Cultural trends, demographics, consumer behavior.
- **Technological** – Innovations, automation, technological advancements.
- **Legal** – Business laws, consumer protection, environmental regulations.
- **Environmental** – Ecological concerns, resource availability, sustainability regulations.

Application – It helps firms identify opportunities (e.g., new markets, increased consumer spending) and threats (e.g., stricter regulations, economic downturns). The firm is then able to align its current and future strategies to these changes.

2. SWOT Analysis

This tool is equally widely used. It helps in analyzing both internal and external elements and we looked at this in lecture two.

Its application in external environmental scanning focuses on identifying opportunities in the external environment that the organization can capitalize on and threats that it needs to mitigate.

The framework ensures organizations stay resilient by leveraging strengths and addressing weaknesses in response to environmental shifts.

- **Strengths (Internal)** – Competitive advantages, unique capabilities, strong brand, financial stability.
- **Weaknesses (Internal)** – Operational inefficiencies, skill gaps, resource limitations, weak brand positioning.
- **Opportunities (External)** – Market expansion, emerging trends, technological advancements, favorable regulations.
- **Threats (External)** – Economic downturns, competition, changing consumer preferences, legal or environmental challenges.

3. ETOP Framework (Environmental Threat and Opportunity Profile)

- This entails dividing the external environment into different sectors and each sector is further divided into sub-sectors.
- Then analyzing how each sub sector impacts the organization.
- The ultimate goal of ETOP is to create a clear profile of the environmental threats and opportunities facing the organization.
- It provides a detailed understanding of which sectors have a favorable or unfavorable impact.
- This sector-specific approach allows for a more granular analysis of the external environment

- Which helps organizations to pinpoint specific areas where opportunities can be exploited, and threats need to be addressed

Importance of External Environmental Scanning for an Individual

External environmental scanning is not just valuable for businesses, it is equally essential for individuals navigating their careers.

By actively monitoring external factors, individuals can stay competitive, adapt to changes, and make strategic career decisions.

- **Identifying Opportunities** – Just as businesses scan for market trends, individuals can track industry developments, high-demand skills, and emerging career paths. Staying informed about technological advancements and job market shifts helps in identifying growth areas and potential new opportunities. Currently almost every career is being affected or influenced by artificial intelligence (AI).
- **Recognizing Threats** – Awareness of potential career risks, such as automation, industry decline, or evolving skill requirements, allows individuals to proactively upskill or pivot to more secure roles.
- **Making Informed Decisions** – Understanding external career trends helps individuals make better choices regarding education, specialization, and career transitions. This ensures alignment with industry needs and future job prospects.
- **Personal SWOT Analysis** – Applying the SWOT framework enables individuals to assess their strengths (skills, experience), weaknesses (gaps to improve), opportunities (industry trends, emerging roles), and threats (job market risks, competition). This structured approach enhances career planning and long-term success.

Topic Review

- External environmental scanning is a crucial and continuous process for both businesses and individuals to identify potential opportunities and threats arising from factors outside their control

- Tools and frameworks such as PESTLE, SWOT, and ETOP can be employed to systematically analyze the political, economic, social, technological, legal, and environmental landscapes
- For businesses, effective external scanning enables informed strategic decision-making, fosters adaptability.
- Individuals can equally apply external scanning principles to their careers by identifying opportunities for growth, recognizing potential threats, and making informed decisions about skill development and career transitions.
- History and across the globe are full of examples of companies that either thrived by adapting to external changes like Netflix and Yellow pages, or failed due to their inability to do so, such as Kodak, and Blockbuster some of which have been highlighted in this course.
- In the next topic our focus to Vision and Mission crafting

References

https://commons.wikimedia.org/wiki/File:The_horse_drawn_carriage_at_the_Brandenburg_Gate_in_Berlin.jpg

<https://www.hiscox.co.uk/broker/about-hiscox/news/adapt-or-die-eight-businesses-transformed-their-business-models-survive>