

Study Material

Class - M. Com

Subject Code – MC 4.1

Subject – Strategic Management

Topic – Environmental Scanning

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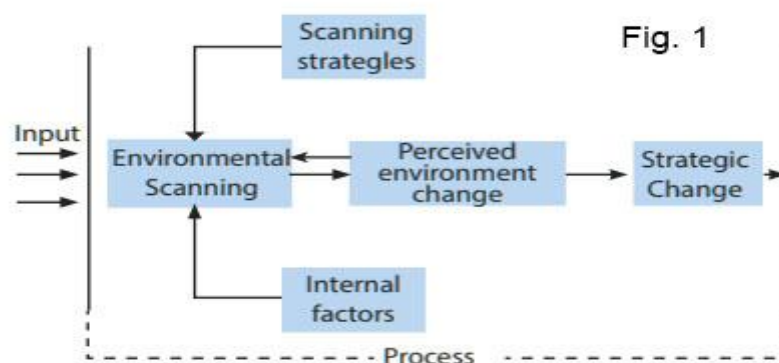
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Learning outcome from this study material

- Explanation of Environmental Scanning
 - Components of a business environment
 - Important factors for Environmental scanning
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Environmental Scanning

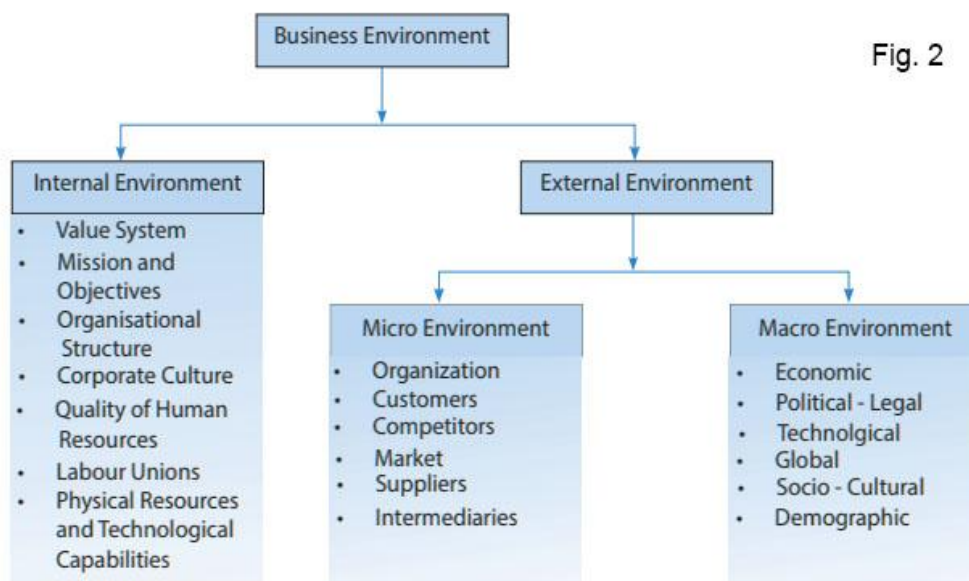
Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment. Every organization has an internal and external environment. In order for the organization to be successful, it is important that it scans its environment regularly to assess its developments and understand factors that can contribute to its success. Environmental scanning is a process used by organizations to monitor their external and internal environments.



The purpose of the scan is the identification of opportunities and threats affecting the business for making strategic business decisions. As a part of the environmental scanning process, the organization collects information regarding its environment and analyses it to forecast the impact of changes in the environment. This eventually helps the management team to make informed decisions.

In the above shown figure, environmental scanning should primarily identify opportunities and threats in the organization's environment. Once these are identified, the organization can create a strategy which helps in maximizing the opportunities and minimizing the threats. Before looking at the important factors for environmental scanning, let's take a quick peek at the components of an organization's environment.

Components of a Business Environment



It can be seen from above, the internal environment of an organization consists of various elements like the value system, mission/objectives of the organization, structure, culture, quality of employees, labour unions, technological capabilities, etc. These elements lie within the organization and any changes to them can affect the overall success of the business.

On the other hand, an organization cannot operate in a vacuum. Also, there are many factors outside the walls of an organization which affects the functions of the business. These factors constitute the external environment of an organization.

The internal environment offers strengths and weaknesses to business while the external environment brings opportunities and threats. The four influencing environmental factors known as SWOT Analysis are:

1. **Strength** – an inherent capacity of an organization which helps it gain a strategic advantage over its competitors.
2. **Weakness** – an inherent constraint or limitation which creates a strategic disadvantage for a business.
3. **Opportunity** – a favourable condition in the organization's environment enabling it to strengthen its position.
4. **Threat** – an unfavourable condition in the organization's environment causing damage to the organization.

Important Factors for Environmental Scanning

Before scanning the environment, an organization must take the following actors into consideration:

- **Events** – These are specific occurrences which take place in different environmental sectors of a business. These are important for the functioning and/or success of the business. Events can occur either in the internal or the external environment. Organizations can observe and track them.
- **Trends** – As the name suggests, trends are general courses of action or tendencies along which the events occur. They are groups of similar or related events which tend to move in a specific direction. Further, trends can be positive or negative. By observing trends, an organization can identify any change in the strength or frequency of the events suggesting a change in the respective area.
- **Issues** – In wake of the events and trends, some concerns can arise. These are Issues. Organizations try to identify emerging issues so that they can take corrective measures to nip them in the bud. However, identifying emerging issues is a difficult task. Usually, emerging issues start with a shift in values or change in which the concern is viewed.
- **Expectations** – Some interested groups have demands based on their concern for issues. These demands are Expectations.

