

Environmental Scanning and SWOT Analysis

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Introduction

The first key to good performance for a company is planning, and successful planning requires that the management and staff involved have a broad knowledge of their current environment. Systematic and integrated analysis is then conducted once the plan is formulated.

Environmental scanning and SWOT analysis are strategic assessment tools that are commonly used to diagnose a company to create a successful plan of action, such as a staff plan or strategic plan. A SWOT analysis facilitates a company's planning for the future. SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. Together, environmental scanning and SWOT analysis help companies to assess whether they have the internal resources required to achieve their corporate goals.

Environmental Scanning

An environmental scan can be defined as “an investigation and assessment of an internal situation and external data and factors that affect the organization”.

Performing an environmental scan involves information collection to assist companies in narrowing down suitable long and short-run goals. Environmental scanning is normally adopted as part of the business or strategic planning process. It can help companies to shape staff plans in response to rapid workplace changes and to create a vision for future corporate staff. For example, the approach can assist a marketing manager to understand the availability and competency of staff and the factors that are significant in the recruitment of and provision of benefits to the staff.

SWOT Analysis

Another strategic assessment tool commonly used to establish the level of understanding needed for successful planning is SWOT analysis. The technique is attributed to Albert Humphrey, who is believed to have developed the approach at the Stanford Research Institute in the 1960s and 1970s. SWOT analysis originated from a need to identify why corporate planning often failed.

The research was meant to determine a way to prevent future failures. Nowadays, the use of SWOT analysis is not limited to profit-making companies. The technique may be applied to any decision-making situation where an objective can be clearly defined.

A SWOT analysis sorts out the types of information collected through environmental scanning into action analyses. Patterns and trends obtained during the environmental scanning process can offer the foundation for a SWOT analysis. For instance, if the environmental scan forecasts that there will be a shortage of fashion designers in the trousers manufacturing industry, this shortage would likely be identified as a Threat in a SWOT analysis.

A SWOT analysis is a complete examination and evaluation of both the internal status of the company and the external context in which it is operating. The tool assists managers in understanding both the external environment and the interrelationship of its various sectors (i.e. the four sectors of the SWOT analysis). The management can then translate this understanding into the company's planning and decision-making processes.

Levels of the Environment

In order to perform an environmental scan and then a SWOT analysis, it is essential to first study the operational environment. The environment can be classified into three levels.

- Task Environment

This environment refers to the company's set of clients or customers. This may include the management, staff, customers, and potential customers.

- Industry Environment

This comprises all of the units associated with the company in the industry. For a profit-making business, this means any industry factors affecting the company, such as suppliers, competitors, distributors, retailers and union leaders.

- Macro Environment

The Macro Environment captures a range of global influences including political, economic, social, technological, environmental and legal factors.

Political factors determine the extent to which government and government policy may influence a company or a specific industry. Such factors may include political stability and policy, as well as trade and taxation policies.

Economic factors influence the economy and hence national growth, which in turn directly influences the company and its profitability. These factors include interest rates, employment or unemployment rates, foreign exchange rates, minimum wage rates and raw material costs.

Social factors focus on the social environment and recognize emerging trends. This helps managers to further understand their customers' needs and wants. Such factors include changing family statuses, education levels and cultural trends, attitudinal changes and lifestyle changes.

Technological factors take into account the rate of technological innovation and development that can affect an industry or market. Such factors include research and development, automation, and changes in digital or mobile technologies. Consideration should also be given to new methods of plant logistics, goods manufacturing and distribution.

Environmental factors relate to changes in the work environment and the impact of ecological issues. With the increasing emphasis placed on corporate sustainability and responsibility, this element has become more important. Such factors include weather, recycling procedures, waste disposal and product sustainability.

Legal factors include consumer laws, employment legislation, health and safety laws, as well as trade regulations and restrictions. Legal factors frequently overlap with political factors. The key difference is that legal factors are the set of laws that a company must comply with as part of doing business, while political factors are based on government policies.

Scanning

The scanning process can be divided into passive and active modes. Passive scanning refers to reading journals or newspapers. It does not involve a systematic process for scanning the information. Consequently, it is possible for an individual to miss information that signals changes in the environment while engaged in passive scanning. In contrast, active scanning focuses attention specifically on information resources that span the task, industry and macro environment. The operation is active, with a well identified focus and planning.

The Environmental Scanning Process

Active environmental scanning is planned out beforehand to identify who should be responsible for the process. Such planning determines the appropriate data collection methods and outlines a plan for applying scanning methods. The process then commences by reviewing and updating relevant socioeconomic and

area information. The active environmental scanning process also takes stock of existing in-house information.

The company actively collects and assesses the scanning information during the process. It surveys key managers to discover critical trends and developments affecting the business. The company should also conduct interviews or focus group interviews with internal and external stakeholders. The company using this approach then compares this information with benchmarking efforts, self-studies, or the company's existing strategic plan.

SWOT Analysis

The role of a SWOT analysis is to gather information through environmental scanning and to separate that information into internal and external issues. Once the environmental scanning process has been completed, the SWOT analysis determines if that information indicates any issues that will assist the company in accomplishing its objectives or if there are any problems that must be solved or reduced so as to obtain the targeted results.

Concerning the four elements of SWOT analysis, *strengths* are the company's internal forces; they are the resources and capabilities that can be used as bases for increasing corporate competitive advantages. *Weaknesses* are the opposite internal concerns that serve as barriers to maintaining or achieving competitive advantages. *Opportunities* refer to any favorable forces present now or in the future external environment. Lastly, *threats* are external concerns that can restrain the maintenance or attainment of a competitive advantage. These provide warnings about the current situation.

SWOT Analysis Example

Here is a sample SWOT analysis for a local online shop running a trousers manufacturing and sales business.

Strengths (internal forces)	Weakness (internal concerns)
✧ Locally made trousers mean faster turnaround on orders.	✧ Pricing on locally made trousers is not competitive.
✧ Repeat customers can help promote the business.	✧ Limited design options owing to inventory issues cannot attract customers.
✧ Reliable search engine rankings drive up online searches.	✧ Customers don't like taking their own measurements.

Opportunities (external forces)	Threats (external concerns)
<ul style="list-style-type: none"> ✧ Using online measurement technology to conduct the measurement process can drive customers to this e-commerce channel. 	<ul style="list-style-type: none"> ✧ Competitors further cut prices
<ul style="list-style-type: none"> ✧ Advertising channels like Facebook and Instagram can be effective. 	<ul style="list-style-type: none"> ✧ A shortage of fashion designers in the trousers manufacturing industry
<ul style="list-style-type: none"> ✧ Custom clothing is always popular. 	<ul style="list-style-type: none"> ✧ The website is difficult to use on mobile devices even though bandwidth has increased. ✧ Failure to attract customers who like differentiated products

Benefits of SWOT Analysis

SWOT analysis promotes information exchange among various functional areas in companies. It benefits a company by enabling the managers to understand what their competitors know, consider, feel and are working on. This enables managers to handle problems, eliminate internal disagreements and establish a proper working environment.

Other benefits of SWOT analysis include the following:

- It helps a company in identifying existing company resources that may have been ignored or have not been used to their full potential.
- It gives a company a clear understanding of the company's strengths, facilitating its further development and meeting of business objectives.
- It pinpoints weaknesses and provides managers with a chance to improve them.
- It demonstrates possible further opportunities. This provides the company with an opportunity to formulate strategic growth plans for the future.
- It aids a company in recognizing possible threats and taking important measures to deal with them. Companies can then introduce new policies and establish growth plans to mitigate potential threats.
- Lastly, it stimulates motivation to upgrade business plans.

Concluding Remarks

A well-prepared environmental scanning process enables a company to conduct a SWOT analysis. Many companies regard SWOT analysis as an effective tool for analysing company data and information. The straightforward 4-cell framework provides a sense of direction and works as a facilitator for formulation

of the company's corporate plan. If performed correctly, a SWOT analysis not only enables information and data to be clearly organized but also enables a company to identify competitive advantages that it can use to gain leverage over its competitors in the industry.