# Chapter 2.
# The Environmental Scan: Your Corporate Radar

*There is nothing so frightening as ignorance in action,*

- Johann Wolfgang von Goethe

## Environmental Intelligence: the Key to Your Survival

Executive teams vary considerably in the discipline with which they study their environments. The more sophisticated of them devote continuous attention to what's happening outside their doors. Some organizations even have what amount to "environmental intelligence" units. They have people with no other job but to read the signals and alert the leaders to their implications.

Many organizations, however, are remarkably out of touch with the wider world. Their executives may be so preoccupied with near-field problems and issues that they feel they have no time to think about the far-field. These organizations tend to be the sitting ducks who take the worst punishment when the shockwave hits. A major shockwave may come through a particular industry only once in a decade, and nine years of complacency can leave most of the players dangerously vulnerable.

But environmental intelligence has more value than just averting disasters. It is the very raw material for creating new opportunities as well. Indeed, it is the starting point for the whole strategy development process. The Environmental Scan, the first component of the model presented in *The Northbound Train*, gets us grounded in reality and may enable us to see what our competitors may not see. It is the figurative crystal ball of strategic thinking.

However, there is a lot going on in the environment of a typical business enterprise. Who can even define the environment comprehensively? Can anyone ever fully understand all of its dimensions, and interpret all of its signals? Surely not.

But by thinking of the environment in terms of its major components, we can at least make the challenge less daunting. We need a way to subdivide the business environment into more manageable categorical components so we can begin to organize our knowledge of it.

## Your Eight Strategic Radar Screens

Figure 2-1 shows a conceptual breakdown of the business environment into eight generic sub-environments. By studying the goings-on in each of them, and connecting the lessons of all of them into a unified picture, we can build a solid basis in fact and a reasonable basis for speculation about what's going to happen to the players in the competitive arena.
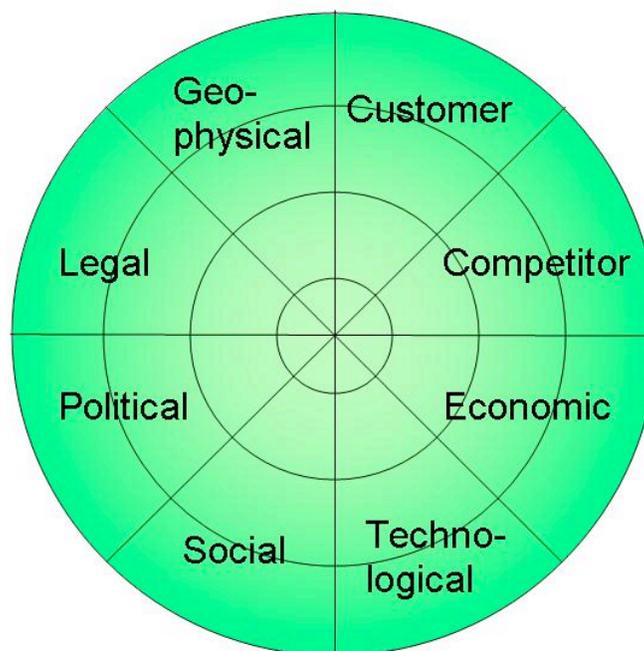


**Figure 2-1. The Business Environment.**

Let's briefly visit the eight basic environments treated in the environmental scan:

• *Customer environment* - the identity, wants, needs, behaviors, habits, values, and life situations of those who do business with you. This category deals with both demographic and psychographic truths about customers. It also recognizes that the enterprise may deal with complex customer entities such as businesses, governments, and groups of people, as well as simply with individuals. What are demographic changes doing to your customer environment? What demographic

factors, such as gender, age, marital patterns, birthrates, education, economic situation, buying habits, religious patterns, mobility, and the like, have the biggest influence on your access to your customers? What psychographic changes are happening in your customer environment? How do social values, such as styles and trends, ecological awareness, health consciousness, attitudes toward institutions such as government, police, and corporations, family values, and gender relationships condition the life environment of your customers? How do rising crime and violence influence their thinking? How are changes in the customers' own personal or business environments forcing them to change? Get yourself mentally inside their worlds and learn what they're experiencing, and how they are reacting to the changes in their worlds. By studying closely what's happening to your customers you can better understand and even anticipate what's happening with them. Are there new issues facing them, and can you translate these issues into the value premise of your business? By the way, be sure to study the customers you hope to do business with, not just the ones you're currently serving; you may discover important differences.

• *Competitor environment* - the identity, motives, strengths, weaknesses, current behavior, and potential behavior of the other enterprises who compete for your customers' resources. It's not necessary, and usually not advisable, to build your strategic approach around what your competitors are doing; you just need to be clear about how they are approaching the customers you want to do business with. How do the competitors array themselves in your particular industry? Are there just a few big players? Is your enterprise one of them? Or is it a "cats and dogs" industry, with no real dominant player? Are your competitors ganging up? Are they forming alliances or co-ventures? Are they searching for acquisitions that strengthen their customer access? Are they aggressively bringing new offerings to the market? Are they taking advantage of new technologies to do more for the customer or to drive down costs, or both? Are global competitors affecting you? Where are the other players weak or inadequate? What gaps exist? What blind spots might they have concerning customer value that you might be able to exploit? Don't forget that in some cases, your customers themselves may become your competitors, if they "in-source" things they have been buying from you. In fact, your competitors aren't limited to just the other enterprises offering to do exactly the same thing you do. They may be other operators in your business world that do things that could lead your customers to do less business with you.

• *Economic environment* - the dynamics of markets, capital, critical resources, costs, prices, currency, state of the national economy, and the state of international trade, all of which may affect the buying patterns of the customers, the behavior of competitors, and the opportunities open to your own enterprise. What are the few critical economic factors that most affect demand for what you provide? How recession-sensitive is your industry? How does it behave in boom times? On the down slope? During the comeback phase? Do global markets affect your business directly? Are your prices or costs sensitive to foreign exchange, interest rates, or investment yields? Do you depend heavily on critical materials or processes that fluctuate in price or availability? Is demand for your products or services hostage to, or

derived from, other more primary economic activity? How will changes in tax policy affect your customers or your business? What shockwaves can you see coming, and how might they affect you? If you depend on a few large customers for most of your revenue, could losing one jeopardize your survival? Are there economic changes in other industries that can translate into advantage in your industry, i.e. can you "cannibalize" business from others who vie for the customer's resources? The economic environment is a very complex one, and it helps to sort the various changes into primary and secondary effects, so you can keep the analysis to manageable proportions.

- *Technological environment* - the range of technological events, trends, and solutions available or on the way that can improve the capability of your enterprise for creating value. This includes the study of the developers of new technologies and their likely behavior, the technology itself, and the trends associated with the application of the technology. How are technological changes affecting your customers, and how do those changes lead to new threats or opportunities for your enterprise? Which technologies are coming fast, and which ones are dying? Are you riding the developing ones, or the dying ones? What are the long-wave changes, the ones certain to drive events for many years? What are the short-wave changes, open to debate about their long term consequences? How long will it take to build the most valuable of these technologies into your operation? Are there new products or processes that can jeopardize the very existence of your enterprise? What possible breakthrough, if achieved, could restructure your whole industry? What one technological capability could make the biggest difference in your ability to create value for your customers? Should you be investing your own resources in developing certain technologies for your needs?

- *Social environment* - the cultural patterns, values, beliefs, trends, styles, preferences, heroes, villains, and conflicts that form the reference system of people's behavior. These may include the effects of national cultures, individual ethnic cultures within a country, and various social segments such as teenagers and people with various lifestyles. These parameters can strongly affect customer behavior as well as define the opportunities open for new market ventures. What broad social issues or changes in attitudes might make certain products less desirable, or others more in demand? What problems of public life, such as law and order, civil rights, questions of medical ethics, family values and relationships, moral issues, religious issues, the role of the media, and the rights of various special-interest groups, are changing your part of the business environment? What part does the issue of corporate social responsibility, i.e. good citizenship, play in your business? How do people feel about your kind of industry or your organization? What must you rethink, what must you re-evaluate, and what must you start doing differently to position your enterprise with the set of values you consider necessary?

- *Political environment* - the processes of national, regional, and local governments, as well as various power groups that can affect the rules for doing business. This can include government intervention in particular industries, tax

policies at all levels, government expenditures for certain causes, legislation aimed at implementing social policy, and regulation of various industries and trade practices. In some countries, it can even involve the basic stability or instability of the national government, effects of corruption, and the safety of the enterprise itself. Differences in laws and policies from one regional government to another can mean that doing business can be easy in one part of a country and a nightmare in another. It may even be advisable to relocate all or part of a business operation to eliminate the negative effects of political hostility. The political environment can also include the influence of informally organized pressure groups, activist organizations, associations representing people or organizations committed to various goals, and media interest in certain issues.

• *Legal environment* - the pattern of laws, lawmaking activity, and litigation that can affect the success of the enterprise. This can involve legal considerations of patents, copyrights, trademarks, and other intellectual property; anti-trust considerations; trade protectionism; product liability; environmental liability; and employment law and litigation, including equal employment issues, sexual harassment, and the rights of employers to hire and fire at will. Clearly, some societies are more litigious than others: the United States, for example, has over twenty times more lawyers per 100,000 population than Japan. Some firms use litigation as part of their competitive strategy. The prospect of expensive or even catastrophic litigation requires that the leaders of the enterprise have a conscious risk-management approach suitable to the realities of their business.

• *Geophysical environment* - the physical surroundings of the organization's facilities and operations, including the ecosystems and natural resources, availability of raw materials, transportation options, proximity to major population centers and sources of skilled talent, susceptibility to environmental disasters like earthquakes and hurricanes, and the effects of crime in the near environment. Changes in any of these factors can affect the success of the business. The location of the corporate headquarters may not be very significant, but the location of geographic offices and distribution centers to maximize customer access can be critical. Operating in a severely congested urban environment may make it more difficult to attract certain kinds of highly talented employees, who value other aspects of quality of life. For businesses that depend on natural resources such as oil, minerals, wood, water, or land access, trends in the management of these assets by governments or other custodians can have a major effect on strategic options.

## Connecting the Dots

At some point in our schooling, most of us had to learn about the constellations in the night sky, with those exotic names such as *Orion*, *Cassiopia*, *Ursa Major*, and *Ursa Minor*. Children in the southern hemisphere had to learn about the *Southern Cross* and others. To see a constellation, you had to find a particular group of stars and then you had to imagine they were connected by lines, to form a diagram or a drawing.

I always had trouble with *Orion*, the hunter. I knew how to find the three stars in his belt, but that hodgepodge of stars didn't really look like a person to me. Seeing a drawing of the constellation in an astronomy book, I could understand how the ancient stargazers created the picture, but it still seemed to me that they were stretching things a bit. Perhaps they saw a hunter because they wanted to see a hunter.

That's actually the way your environmental radar screen works. You see the constellation that your personal knowledge, history, and biases equip you to see. Your radar screen supplies the stars — the key events and trends — and your mind creates the constellation — the concept of what's happening. Each radar screen gives you a different "take" on the environment. There is no correct set of constellations, and no objective conclusion that is correct for all businesses. The technological constellation or the legal constellation for your enterprise is whatever you conclude that it is. You'll never know whether it's right or wrong, in the objective sense, only whether it seemed to support the success of your business over the longer term.

But without a fully functioning corporate radar, and a thoughtful analysis of the information it brings you, you can't even hope to approach the future of your business with the educated guesswork that it makes possible.

In using this environmental model, a note of caution is in order: it is important not to fall into the habit of thinking of these eight hypothetical environments as if they really were separate components. Indeed, they are not. In many cases, the most valuable insights come from discovering phenomena that weave through all of them, or that transcend any imaginary intellectual dividing line between one and another. The only value in dividing them up is to make the process of analysis more manageable. The real value is ultimately in putting them back together.

Most executive teams could do a much better job of reading their environmental crystal ball, and most could do a much better job of putting the information to use. It is quite common for the market research "eggheads" in an organization to have a wealth of information at their disposal, and for none of the leaders of the enterprise to even know what they have. And seldom do executives deploy market intelligence throughout the organization, or even one or two levels down to the managers who could benefit from a better understanding of the business challenges facing the enterprise.

If your leadership team has a periodic formal strategy retreat, say at least as often as once a year, it is a good idea to present everybody at the meeting with a written report of the environmental scan. This document should be a masterpiece of careful selection, digestion, and interpretation of the critical elements of environmental intelligence. It should not overwhelm them with data or too much information for them to process. But every leader should be expected to understand the operating environment in some depth, and be prepared to capitalize on that knowledge in the strategy development process as well as in leading his or her own unit to meet its mission.[1]

# Chapter Notes (2)

1. This chapter is adapted from my book *The Northbound Train: Finding the Purpose, Setting the Direction, Shaping the Destiny of Your Organization.* New York: AMACOM, 1994, page 72.