

Environmental Analysis for Corporate Planning

Corporations need an ongoing method of analyzing the general environment. The author offers some worthwhile approaches to environmental analysis for strategic corporate planning.

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Environmental analysis is a key component in any planning system. As in many other spheres of management thought, the prevailing disposition to deal with this component as consciously and explicitly as possible has led to some systematization of the analysis of the *operating* environment despite undoubtedly formidable difficulties. But analysis of the *general* environment remains largely an intuitive and individualistic top management exercise. In the interests of developing formal corporate planning as a management discipline in its own right, this article offers a clearer perspective on the environmental analysis function, with particular emphasis on the somewhat embryonic area of the general environment.

TERMINOLOGY

The word "environment" ordinarily conjures up images of pure air and natural scenery, but this is not the sense in which the expression is used in management literature. The conceptual apparatus of environmental analysis is

largely found in general systems theory, specifically where the open systems rather than the closed systems scheme is emphasized. The open systems mode gives greater weight to the notion that, because organizations exist in a dynamic environment, environmental forces largely determine the course of the given entity. Adherents of the closed systems approach concentrate only on the internal working (sometimes referred to as the internal environment) of the firm. It is perhaps more practical to take the view that the emphasis can be on one or the other, depending upon the particular management problem to be solved.

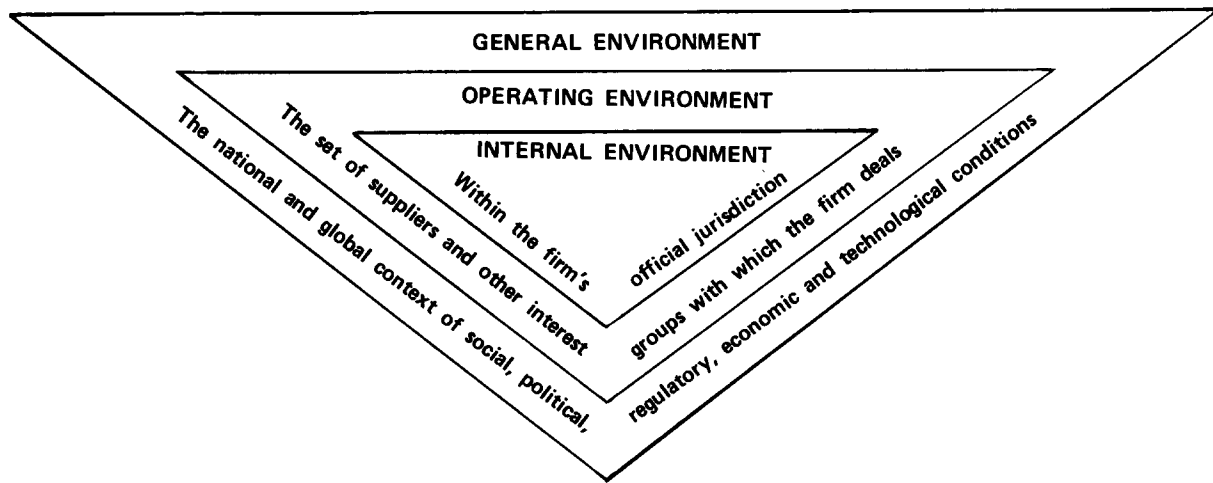
Accordingly, while detailed information about company activities and resources may be considerably important to top management in exercising control over performance, it is of limited value for planning corporate responses to strategic issues. In such instances, top management really requires detailed information about the external environment. It is possible to predict that firms of roughly the same size will have different degrees of openness or closure depending on the relative sweep of their inputs and outputs.

In applying systems theory to the corporate environment, it has been suggested that

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FIGURE 1

Environmental Levels



the concepts of resolution levels or superordinate systems can be usefully employed. Such superordinate systems can be grouped into two broad categories for the time being—operating environment and the general environment (see Figure 1).

Sometimes the expressions “specific environment,” “immediate environment,” and “task environment” are used to denote the operating (or business) environment. Hence, the operating environment consists of the company in interaction with other entities such as its customers, suppliers, competitors, unions, regulatory agencies, investors, bankers, and so on. For all practical purposes, the operating environment of an organization is considered to substantially correspond to the sector or industry in which it functions. In these circumstances, one aspect of the operating environment tends to be singled out for special attention (for example, competition), particularly in the context of the prevailing management model. The operating environment is best analyzed through the use of the concept of organizational sets—organizations in interaction with a focal organization.

The general environment, which is considered superordinate to the operating environ-

ment, consists of pervasive background factors such as social, political, governmental (or regulatory), economic, and technological conditions. The influence of these factors is no doubt indirect and abstract, but since there is no homogeneity among companies, each firm experiences different effects. Thus, every firm must contend with those facets of each influence which are most relevant to it. Besides, a higher order of abstraction is characteristic of problems at the corporate level. We take the position here that the general environment can be analyzed for purposes of corporate planning in terms of a matrix of content categories along one axis and environmental levels along the other.

ENVIRONMENTAL ANALYSIS

The focus of this article will not be upon analysis of the internal environment or the operating environment as characterized above. Instead, the focus will be upon the analysis of the general environment because there is little that is new by way of conceptual schemes and practical skills that we could hope to contribute to operating environment analysis.

Environmental analysis literature is replete with conventional methodologies such as market research, economic indicators, demand forecasting, industry studies, and so on. Some or all of these approaches have also been used for corporate strategic planning purposes. But such use, perhaps inevitably, has not been without its pitfalls.

For instance, David Ewing strikes a responsive chord in managerial circles when he bemoans the pure marketing emphasis. Ewing complains, "The most careful and sophisticated forecasts of market demand have gone awry, and there is no technical improvement in sight that promises to change matters." And J. Thomas Cannon, who has expounded on the analysis of the competitive environment, adds the following qualification to his remarks: "Direct competition . . . is only one of the basic dimensions of the company's total strategic environment. . . The competitive audit must be continuously augmented by assessment of the broader governmental, social, economic, ideological and other forces which will influence the company's character, purposes and strategies over the longer term."¹

The point is perhaps best dramatized by C. Jackson Grayson who is said to have remarked: "The chief executive has to watch out for the killing variable in the external world—the new law, the currency devaluation—that can change everything for his company."²

The inescapable conclusion is that analysis of the general environment is at least as important as operating environment analysis for purposes of corporate strategic planning. Leslie W. Rue has explicitly advocated the necessity of identifying "relevant factors out-

side of the operational environment of the company." In fact, he distinguishes this feature as characteristic of the highest level of long-range planning sophistication.³

However, the idea that social, political, regulatory, economic and technological conditions should be taken into account when planning is somewhat in the nature of conventional wisdom, and must be acknowledged as such. In many instances, this string of environmental conditions is almost ritually invoked in planning literature. But one also finds that few, if any, have actually spelled out what their incantation entails in the context of corporate planning.

Kenneth R. Andrews shares the idea that the "environment of a business can be viewed as consisting of technological, economic, social and political influences." But he points to the basic reason for the dearth of viable approaches when he says: "The conceptual apparatus of special disciplines—economics, anthropology, psychology, sociology and the like—do not produce balanced appraisals, understandably enough, of environmental developments relevant to business decisions."⁴

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A SUGGESTED APPROACH

Notwithstanding the preceding expression of pessimism, there is a body of material which has been contributed by, or can be drawn from, the "special disciplines" and which can, with appropriate modifications and simplifications, be employed for the purposes of environmental analysis in a given corporate situation. The idea here is not so much to theorize about the individual environmental categories as to shed some light on the interactions among them. As will be seen later, the full array of approaches available for analyzing social, political, regulatory, eco-

1. David Ewing, "Corporate Planning at a Crossroads," *Harvard Business Review* (July-August 1967), p. 84.

J. Thomas Cannon, "Auditing the Competitive Environment," in *Concepts of Corporate Strategy*, John W. Bonge and Bruce P. Coleman, eds. (New York: The Macmillan Company, 1972), pp. 263-64.

2. C. Jackson Grayson cited by Judson Gooding, "It's No Easy Trick to Be the Well-Informed Executive," *Fortune* (January 1973), p. 87.

3. Leslie W. Rue, "The How and Who of Long Range Planning," *Business Horizons* (December 1973), pp. 23-30.

4. Kenneth R. Andrews, *A Concept of Corporate Strategy* (Homewood, Ill.: Dow Jones-Irwin, Inc.), 1971, p. 69.

conomic, and technological conditions could perhaps only be afforded by large divisionalized companies with considerable financial and personnel resources. Focusing upon the national or global level of the general environment is not only meaningful for their well-connected executives but necessary as well.

What follows is an identification of worthwhile approaches to environmental analysis categorized under social, political, regulatory, economic, and technological conditions. The scope of the respective approaches, in line with our emphasis on the general environment, is national rather than sectoral but not global. Those who are anxious to employ even a modicum of quantification will find ample room for it in every instance, even in the ostensibly nebulous area of political conditions. As a matter of fact, it is precisely the quantification requirement that can place broad-band environmental analysis of the variety advocated here beyond the reach of all but the best-endowed corporations.

Less sophisticated but, from the standpoint of the particular context, equally effective analyses can be and are being undertaken. This narrow-band approach is reflected by selecting the key areas (usually social/technological in a country such as the United States or regulatory/economic in a country like India) for particular emphasis, and taking the others as given. Qualitative judgments may also be used.

Social Conditions

We start with social conditions because they constitute the context in which all human actions, including management, take place. The analysis of social conditions has become prominent because of the increasing pressures on organizations to meet both social and economic performance criteria. In recent years, there has been a growing body of literature on "the measurement of social responsibilities" of business.

In terms of our framework, however, the particular issue of measurement of social responsibilities is more germane to internal environmental analysis or, at the most, the analysis of the operating environment. By contrast, general environmental analysis calls, among other things, for an assessment of social conditions at the national or, if possible, at the global level, in terms of what are becoming known as social indicators.

Social indicators are comparable to the well-known and long-established economic indicators such as GNP. They are intended to measure various facets of the quality of life which go into making up social progress. Indicators are developed principally in the areas of health, public safety, legal facilities, education, and employment.

According to Ithiel de Sola Pool, "the identification of social indicators is a task calling for considerable theoretical sophistication." As the London *Economist* puts it: "The task of selecting and weighting for the calculation of an umbrella index of the quality of life makes the calculation of GNP seem like schoolboy arithmetic. Nevertheless, the publication proceeds to rate nine Western countries in order of pleasantness according to fifteen social indicators. The *Economist* approach is summarized in terms of a conceptual matrix in Table 1a. As regards developing countries, definitive work has been completed on social as well as other indicators. The relevant ones from our standpoint are again presented in matrix form in Table 1b.⁵

Political Conditions

In the prevailing (American) management model, the need for analyzing political conditions for the purposes of corporate planning is

5. Ithiel de Sola Pool, "Political Information Systems," in *Perspectives of Planning*, Erich Jantsch, ed. (Paris: OECD, 1969), p. 318.

The *Economist*, "Where the Grass Is Greener" (December 25-31, 1971), p. 15 and "More Green Grass" (January 22-28, 1972), pp. 17-18.

TABLE 1

Social Indicators at the National Level

1a. Developed country

<i>CONTENT CATEGORY</i> <i>Social Conditions</i> <i>(indicators and effects)</i>		
ENVIRON- MENTAL LEVEL National (developed country)	Population density	(—)
	Early marriage	(+)
	Population per doctor	(—)
	Suicides	(—)
	Murders	(—)
	Deaths from road accidents	(—)
	Infant mortality	(—)
	Students in higher education	(+)
	Proportion of dwellings with baths	(+)
	Ratio of TV to people	(+)
	Ratio of telephones to people	(+)
	Daily newspaper circulation	(+)
	Car ownership	(+)
	Economic growth	(+)
	Divorce	(±)

1b. Developing country

<i>CONTENT CATEGORY</i> <i>Social Conditions</i>	
ENVIRON- MENTAL LEVEL National (Developing country)	Size of traditional agricultural sector
	Extent of dualism
	Extent of urbanization
	Character of basic social organization
	Importance of indigenous middle class
	Extent of social mobility
	Extent of literacy
	Extent of mass communication
	Degree of cultural and ethnic homogeneity
	Degree of social tension
	Crude fertility rate
	Degree of modernization of outlook

SOURCE: Table 1a adapted from "More Green Grass," *Economist* (January 22, 1972), p. 18. Table 1b adapted from Adelman and Morris as cited by Nancy Baster,

"Development Indicators: An Introduction," *The Journal of Development Studies*, Special Issue on Development Indicators, VIII (April 1972), p. 13.

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often relegated to the international operations of any given company. This is because political risks are perceived to be greater in other countries. It is not surprising, therefore, that the most useful frameworks have been developed with multinational business in mind. One such framework developed by Stefan Robock is reproduced in Table 2. There is no reason why this scheme cannot be employed for purposes of initiating a systematic analysis of political conditions at the national level for a purely domestic corporation.

In mapping the political terrain, it is useful to distinguish it from two other areas which are somewhat closely related to it. These are the legal and administrative climates, which are combined in the next section as "regulatory conditions." The basic content of political conditions analysis has been usefully summarized by Charles Lewis Taylor as:

... any one or more of the following facets of change ... the maintenance of stability and the provision for orderly change in leadership, fundamental changes in the style of thought, the increase of responsiveness in the personnel and institutions of government and the development of grass roots democracy, national integration that overrides primordial conflicts and brings purposive action to the state and its people, the provision of defense—military, economic and cultural—against the outside world, or simply constitutional development, the growth of rules by which authoritarian decisions can be made."⁶

The relevant indicators that have been formulated in this connection are listed in Table 3. A certain essential degree of stability can be achieved through the corporate planning exercise if the fundamental trends covered under political conditions are also identified and gauged.

6. Charles Lewis Taylor, "Indicators of Political Development," *Journal of Development Studies*, Measuring Development: Special Issue on Development Indicators, VIII (April 1972), p. 104.

TABLE 2

Political Risk: a Conceptual Framework

<i>Sources of Political Risk</i>	<i>Groups Through Which Political Risk Can be Generated</i>	<i>Effects on International Business Operations</i>
Competing political philosophies (nationalism, socialism, communism) Social unrest and disorder Vested interests of local business groups Recent and impending political independence Armed conflicts and internal rebellions for political power New international alliances	Government in power and its operating agencies Parliamentary opposition groups Nonparliamentary opposition groups (Algerian "FLN," guerrilla movements working within or outside country) Nonorganized common interest groups: students, workers, peasants, minorities, and so on Foreign governments or inter-governmental agencies such as the EEC Foreign governments willing to enter into armed conflict or to support internal rebellion	Confiscation: Loss of assets without compensation Expropriation with compensation: Loss of freedom to operate Operational restrictions: Market shares, product characteristics, employment policies, locally shared ownership, and so on Loss of transfer freedom: Financial (dividends, interest payments, goods, personnel or ownership rights, for example) Breaches or unilateral revisions in contracts and agreements Discrimination such as taxes or compulsory subcontractings Damage to property or personnel from riots, insurrections, revolutions, and wars

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SOURCE: Stefan H. Robock, "Political Risk: Identification and Assessment," *Columbia Journal of World Business* (July-August 1971), p. 7.

TABLE 3

Political Indicators at the National Level

	<i>CONTENT CATEGORY</i> <i>Political Conditions</i>
ENVIRONMENTAL LEVEL National (developing country)	Degree of national integration and sense of national unity
	Extent of centralization of political power
	Strength of democratic institutions
	Degree of freedom of political opposition and press
	Degree of competitiveness of political parties
	Predominant basis of the political party system
	Strength of the labor movement
	Political strength of the traditional elite
	Political strength of the military
	Extent of political stability

SOURCE: Adelman and Morris, cited in Baster, "Development Indicators."

Regulatory Conditions

It is not as easy to define the scope of this particular area as it is to draw the boundaries of the other environmental conditions. What is sometimes referred to as the legal climate, encompassing chiefly the prevailing judicial processes, is certainly one of the factors. But more important, we are concerned with the fairly recent and now rather pervasive incidence of statutory administrative controls in the national economic sphere accompanied by the growing size of the public sector. For lack of a more succinct phrase, we use the term "regulatory conditions" to describe those governmental forces whose impact is being felt in even hitherto free market economies, not to mention the mixed, socially controlled, and centrally planned ones.

In countries like India where market forces have been substantially replaced by administrative controls and where the thicket

TABLE 4

Governmental Finance Model

<i>Revenue</i>	<i>Year 1 Year 2 . . . Year X</i>
1. Taxes on income	Personal income tax, corporate income tax, agricultural income tax, land revenue
2. Taxes on commodities and services	Export and import duties, excise duties, sales tax, entertainment tax
3. Taxes on property and capital transactions	Estate duty, wealth tax, gift tax
4. Total tax revenue	Lines 1 + 2 + 3
5. Less state's share of tax revenue	Personal income tax, excise duties, estate duties
6. Central government tax revenue	Line 4 – Line 5
7. Nontax revenue	Net contribution of public undertakings, interest receipts
8. Total revenue	Lines 6 + 7
<i>Expenditures</i>	
9. Current expenditure	Administration, defense, education, health, agriculture, debt servicing, grants to states
10. Capital expenditure	Railways, post and telegraph, industrial development, civil/works, state trading schemes, defense, loans and advances, amortization of domestic and foreign loans
11. Deficit/surplus on current account	Line 8 – Line 9
12. Finance required	Line 11 – Line 10
<i>Financing</i>	Domestic and foreign currency/loans, deficit finance, aid, loan repayments, small savings, Treasury bills, cash balances

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SOURCE: Adapted from Reserve Bank of India, *Reports on Currency and Finance*.

of regulatory conditions is particularly dense, environmental analysis for purposes of corporate planning has often been equated with the assessment of governmental policies. Indeed, as mentioned earlier, the adoption of such a narrow-band approach may not involve undue sacrifice in terms of covering the relevant ground while analyzing the environment in such national contexts. However, the identification of turning points (such as liberalization or tightening of government controls) would be facilitated by an understanding of the other environmental conditions recounted here.

Thus a fruitful tack for the business policy maker might be to convert an otherwise esoteric exercise in econometrics into a more familiar application of financial analysis. Since the government is increasingly becoming the principal actor in national affairs, why not examine its revenues and expenditures for

clues as to future short- and long-run policies in a wide range of areas? Although mere budget watching has its limitations, such an analysis is also an important component of any assessment of the feasibility of the national development plans which often constitute the cornerstone of many administrations. The format used for undertaking a financial analysis of the central government's budget is presented in Table 4. It essentially revolves around an examination of taxation, government spending, and financial management.

Economic Conditions

The assessment of national development plans alluded to in the preceding section—in terms of the projected growth rates, capital-output ratios, investment rates, marginal and average

savings rates, foreign exchange gaps, and input-output relationships—could conceivably be as much a part of the analysis of national economic conditions as of regulatory conditions. It all depends, of course, on the relative magnitudes of the private and public sectors. We assume that the private sector, though shrinking (sometimes rapidly) relative to the government sector, is still a sizable part of the national picture and requires separate attention.

The appraisal of economic conditions at the national level has been used extensively by the country economic missions of the International Bank for Reconstruction and Development and the International Monetary Fund whose relationship to nations is analogous to that of financial institutions and banks to corporations. Although the *raison d'être* of each of these two U.N. agencies is different, there is a surprising degree of similarity in their approach to national economic performance appraisal.

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In an exposition of the approach taken by the IBRD, Andrew Kamarck considers the following questions: What is happening to growth and income? How compatible is the social institutional framework with development? Is there a population growth problem? Is development being given appropriate emphasis vis-a-vis defense? He also includes the characteristic IMF concerns in relation to resource mobilization efforts, maintenance of confidence in currency, rate of increase in import capacity through exchange earnings, and consistency between development and financial policies.⁷

Thus, the one way in which the U.N. economists' approach is distinct from that of other economists is that the former emphasizes analysis of the financial sector in addition to the usual concern for the "real sector" of production, income, and so on. Corporate

managers and planners should be able to appreciate this emphasis since they are already familiar with the great usefulness and durability of the financial accounting model represented by company balance sheets, income statements, and cash flow statements. Of course, there is probably no such thing as a strictly national financial statement, but at the country level, too, elementary financial accounting identities can be ignored only at the risk of grave monetary and exchange instability.

The usual assumption made to reduce the consideration of the financial sector to minimal proportions is that inflation will proceed at a steady rate; since it is then fully anticipated, domestic prices (and the exchange rate) will adjust to it fully and there will be no distortion in the price structure. This is obviously an unrealistic assumption because inflation typically proceeds in an erratic manner and cannot possibly be fully anticipated.

It is useful, therefore, to recognize the accounting relationship that exists among the assets and liabilities of the banking system (including the central banking authority and the deposit money banks), the government's budgetary position, and the country's balance of payments. The formats of these are presented in Table 5. Financial projections entirely comparable in nature to the familiar corporate financial projections can be readily made using these statements to uncover the strategic implications of various macro level policies.

Technological Conditions

In recent years a great deal of attention has been directed towards the subject of technological forecasting, especially in areas such as the aerospace, electronic, and chemical fields. Apart from these sophisticated technologies, we can appreciate the value of technological forecasting for virtually any technology when

7. Andrew Kamarck, "The Appraisal of Country Economic Performance," *Economic Development and Cultural Change*, XVIII (January 1970).

TABLE 5

National Level Financial Statements for Assessment of Economic Conditions

<i>I. Government budget</i>	<i>III-B. Balance sheet of the central bank</i>
Cash revenue	Foreign assets
Income tax	Claims on government
Customs duties	Claims on private sector
Other	Claims on banks
<i>Total</i>	Other assets
Cash expenditure	<i>Total assets</i>
Services and net loss on public enterprises	Notes
Public works	Held by private sector
Defense	Held by banks
Other	Deposits
<i>Total</i>	Banks
Deficit (–) or surplus	Government
Financing	Other liabilities
Credit from banking system	<i>Total liabilities</i>
Use of deposit balances	
Bonds sold to public	<i>III-C. Balance sheet of the commercial banks</i>
<i>II. Balance of payments</i>	Cash
Goods and services	Notes
Exports	Deposits at central bank
Imports	Claims on government
Other (net)	Claims on private sector
<i>Balance</i>	Other assets
Capital	<i>Total assets</i>
Official and banks	Private deposits
Other	Current accounts
<i>Balance</i>	Time and savings
	Credit from central bank
<i>III-A. Combined balance sheet of the banking system</i>	Other liabilities
Foreign assets	<i>Total liabilities</i>
Claims on government	
Claims on private sector	
Other assets	
<i>Total assets</i>	
Money	
Quasimoney	
Government deposits	
Other liabilities	
<i>Total liabilities</i>	

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we consider James B. Quinn's broad definition of the word as "the knowledge of physical relationships systematically applied to the useful arts." It is the wide and relatively continuous range of characteristics in applications over a given period of time that makes technological forecasting possible.⁸

Donald Schon extends this idea by identi-

fying three major stages in the process of technological change: invention (the creation of a new product or process); innovation (the introduction of that product or process into use); and diffusion (the spread of the product or process beyond first use). As a practical matter, he points out, it is the diffusion of technology which is more amenable to forecasting than invention or innovation.⁹

8. J. B. Quinn, "Technological Forecasting," *Harvard Business Review* (March-April 1967), p. 90.

9. Donald Schon, "Forecasting and Technological Forecasting" in "Toward the Year 2000: Work in Progress," *Daedalus* (Summer 1967), p. 759.

Although useful, the preceding comments are more in the realm of operating environment analysis than general environment analysis. A certain consistency in our proposed approach to environmental analysis requires us to demonstrate how the focus can be adjusted to take in technological conditions at the national level as distinct from the industry level. Unfortunately, no ready-made approach exists and we must improvise.

Schon provides the basis for such an approach when he observes that "technological change is closely linked to social and economic factors and no predictions about the one can be made without assumptions, implicit or explicit, about the other." He adds that "any instance of technological change can best be understood as an event in a total socio-economic-technical system characterized by large numbers of interdependent variables." Moreover, as Carl Madden observes:

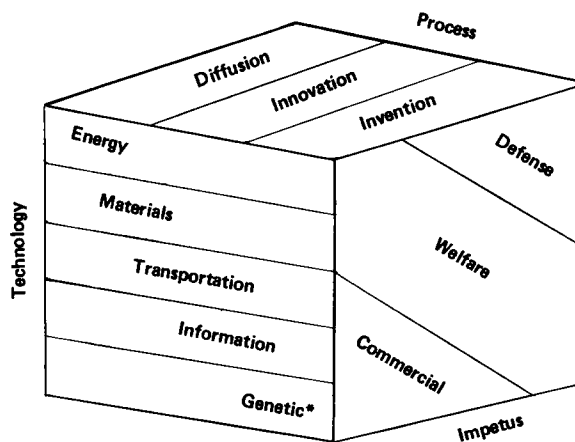
The principle of selection for industrial technology has traditionally been survival in the market place or domination of political enemies. New technology has been used whenever it would help business make a profit or help sovereign authority eliminate members of a rival political authority.¹⁰

In the light of these ideas, how does one go about making assessments at the national level? A capsule technological assessment at the national level is provided by Victor Urquidi's comments on the Latin American situation, which is also similar to the present Indian state of development. He observes:

Latin America still lacks one of the conditioning elements for a self-sustained process of technological change. The internal market . . . does not constitute a sufficient incentive for self-sustained technological progress in the investment and production processes. A given technology, within certain limits, may remain in force as long as the size of the market and high protection give the industrial entrepreneur the profit he seeks. Technology will change not because the market requires it to, but because it changes in its

FIGURE 2

A Framework for Assessing Technological Conditions at the National Level



*Includes agronomic and biomedical developments.

place of origin: the U.S., Western Europe, Japan, and so on. In this way Latin America may continue to incorporate recent technology—although not always the latest one—but only because the previous one is becoming obsolete. Thus, the dependence continues.

In concurrence with the Madden viewpoint, Urquidi says that in the United States and other developed countries the impetus to technological change comes from the demands of highly consumer-oriented and competitive markets, the demands for military preparedness, and the institutionalization of knowledge in universities and research organizations.¹¹

Based on the foregoing considerations, we propose the following conceptualization of the technological assessment framework at the national level combining the basic (physical) knowledge areas involved with the impetus for their application and the processes of their translation into use. This framework is illustrated in Figure 2.

10. Carl H. Madden, *Clash of Culture: Management in an Age of Changing Values* (Washington, D.C.: National Planning Association, 1972), p. 42.

11. Victor L. Urquidi, "Technology, Planning and Latin American Development," *International Development Review*, XIII (1971/1) p. 9.

ORGANIZATIONAL REQUIREMENTS

In many respects, the environmental analysis function is like the function performed by a camera. Some measure of focusing can be achieved by deciding on the resolution level—whether national or global—that is to be employed. This would depend on the particular organizational and temporal context. Similarly, general environmental conditions can be subjected to systematic filtering through the use of one or more of the specialized content categories described so as to cover the relevant spectrum of conditions influencing the organization. The aperture is determined by the degree of openness or closure of the particular organization, while the lens corresponds to the individual within it, perhaps an environmental analyst or even several of them, employed in the planning department.

What would such an analyst be concerned with? He would of course have to develop a high degree of familiarity with documentary sources of information to the point where he can anticipate the appearance of important data in print. Such familiarity would lead to the development of working relationships with the primary or human sources of a variety of critical information which could be tapped, should the occasion or the need arise. Finally, his own perceptions, analytical abilities and judgment should be of a high caliber in order to interpret the inanimate data he collects.

Data can be accumulated actively by searching or passively by surveillance. Although the surveillance method is most common, the sensitivity and selectivity of scanning skills are enhanced by the frequency and intensity of the active search. While outside specialists might have an initial competitive edge in employing search techniques, there is much to commend the longer-term development of an in-house research capability in this particular area. Of course, regardless of who does the research, the crucial problem in the mind of management is the nature of the

balance struck between total identification with and complete detachment from the company.

Sources of information and the methodologies for their acquisition are but two legs of a three-legged environmental analysis stool. The third equally important leg is the analysis and transmission of the information to key executives so that it can be internalized in the decision-making process and incorporated into the annual planning cycle. This requires consideration of reporting systems which are appropriate for the propagation of environmental information. Thought has to be given to the format, frequency, timing, and content of such reports in a fashion similar to that which goes into the design of management control systems. Obviously, the value of such a reporting system would be enhanced if there were a place in it not only for special studies taken up by the planning department itself but also, and particularly, for studies requested by operating as well as executive management.

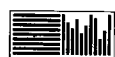
Finally, a word of caution. Environmental analysis of the broad-gauged variety which we have been advocating tends in practice to be equated with exercises in futurology. Of the futurologist or seer, Theodore Levitt says, a trifle tartly:

The easiest kind of expert to be is the specialist who predicts the future. Two things are required: imagination and a lively command of the language This is why there are so many specialists on the subject of the future Predicting the future has become an industry all its own Yet, most predictions served up in such splendidly expensive packages are either banal or fatuous.¹²

No doubt in recent years the subject of futurology has attracted respectable attention from practitioners and academicians alike. But prophecy through the spinning of stimulating scenarios is clearly not the objective of environmental analysis. In some ways, its charter is perhaps more demanding. Illumina-

12. Theodore Levitt, *Marketing Mode* (New York: McGraw-Hill, 1969), pp. 282-83.

tion of those features in the present situation, which are in all likelihood overlooked by distracted observers such as operating and executive management, makes more valid assumptions possible when planning. Anyone who is familiar with the phenomenon of data gaps knows well the problem of forecasting the past, not to mention predicting the future. Futurology, if irresistible, is best left to top managers, who may be the only ones in a position to afford its luxury.

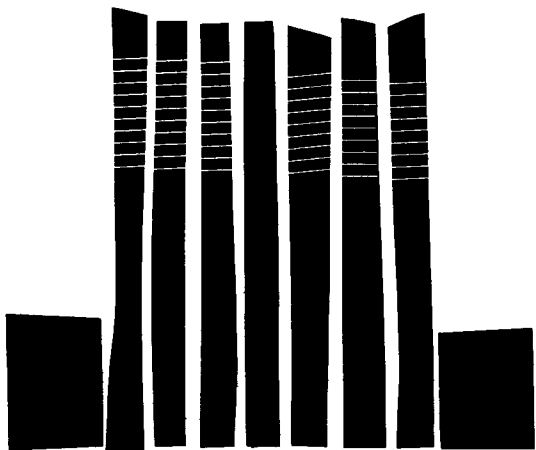


In conclusion, environmental analysis is not an activity which has been formalized, systematized, or proceduralized to any significant degree in business. It remains, by and large, a highly individualistic capability reflecting the knowledge, skills, and special experience of particular executives in every organization. Identifying and collecting on a corporate basis information which will effectively meet the needs of top management planning is a complex task. Much of what is

important is expensive to gather or non-numerical in nature; much is of dubious accuracy or reliability.

In these circumstances, it is not surprising that the crucial information for strategic planning would be based on top management's first-hand, usually intuitive, and judgmental experience springing from a well-honed grasp of realities. And yet, as we have tried to point out in this article, formal environmental data collection efforts can also be of value, at least to large firms. Besides the one-shot exercises conducted by outside specialists, a firm needs an ongoing organized process of institutionalizing the external information deemed relevant to its prosperity. The value of such an effort lies not merely in financial improvements in terms of growth and profitability but also in the systematic development of an organic capability within the corporation—the development, as it were, of specialized corporate “antennae.”

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