

Strategic Management and Business Policy I

Dr. Leul Girma | Berlin



**Lessingstraße 79,
13158 Berlin, Germany
Phone: +49 30 233618555
Fax: +49 30 233618556
Email: info@eiiet.com**

Discover the world of eiIET

Course & Class Information

Course: Strategic Management and Business Policy I

Program: Bachelor's Program

Credits: 4 ECTS

Mode: Onsite / Blended

Class 3: External Environment Analysis and Policy Implications

Instructor: Dr Leul Girma

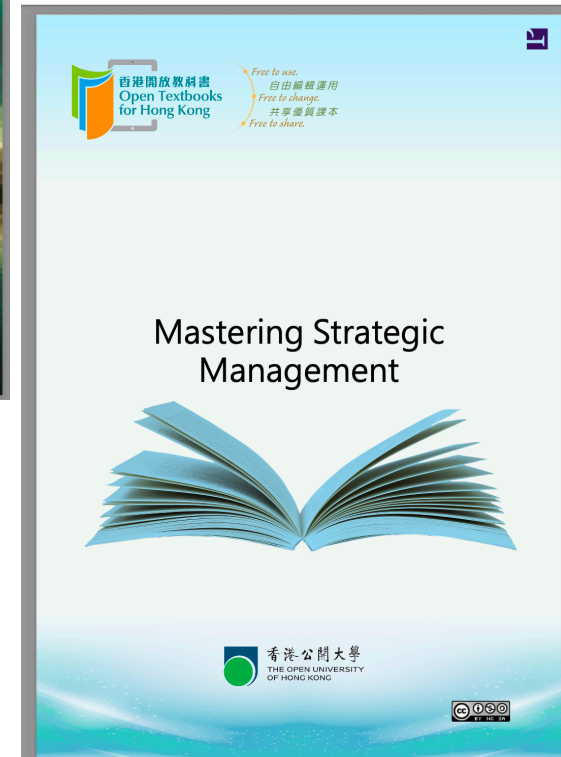
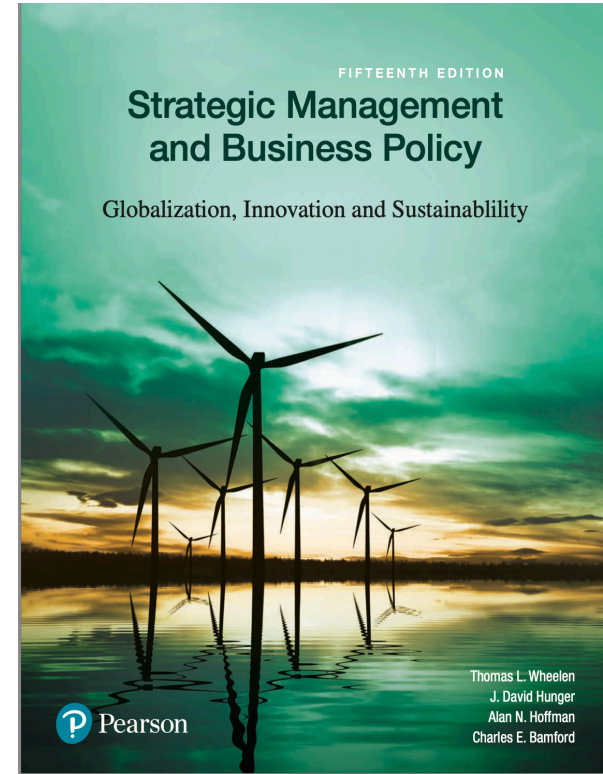
Main Teaching & Learning Materials

Books

- Mastering Strategic Management.
- Strategic Management and Business Policy

Business Policy resources

- Company annual reports
- Public corporate governance codes and policy guidelines
- Instructor-provided case materials



Objective and Learning Outcomes

Objective:

To develop an understanding of **how macro-environmental forces shape organizational strategy** and influence **business policy**, enabling managers to **evaluate external** conditions and support informed strategic decision-making.

By the end of this class, YOU will be able to:

- Explain the **role of the external environment** in strategic management.
- **Apply the PESTEL framework** to analyze macro-environmental factors.
- Identify external **opportunities and threats** affecting organizations.

Organizations in a Dynamic External Environment

Organizations as Open Systems

An open system is an organization that **continuously interacts with its external environment** by **receiving inputs, transforming** them into **outputs**, and **adapting** based on **environmental feedback** (Johnson et al., 2020).

Key implications:

- Organizational performance **is influenced by external conditions.**
- Continuous environmental **monitoring supports** better decisions.
- Strategic and policy adjustments** are necessary in dynamic environments.
- Feedback helps** organizations remain competitive and resilient.

Why External Forces Require Policy Awareness

Policy awareness is the **recognition that external pressures require structured organizational guidelines to ensure consistent managerial decisions** (Wheelen et al., 2018).

Key considerations:

- External pressures **demand structured managerial responses.**
- **Policies guide decisions** when facing **uncertainty.**
- **Clear guidelines reduce inconsistent** reactions across the organization.
- **Policy awareness** strengthens organizational **preparedness.**

Environmental Uncertainty and Policy Stability

Environmental uncertainty refers to the degree of unpredictability in external conditions that can affect organizational decisions and performance (Johnson et al., 2020).

Organizations operate in environments where **market shifts, regulatory changes, technological disruption, and societal expectations can evolve rapidly.**

Key implications:

- Uncertainty increases the complexity of managerial decision-making.
- Expect to balancing stability with adaptability supports long-term effectiveness.

The Role of Environmental Scanning

Environmental scanning is the **systematic process of collecting and analyzing external information** to support strategic planning and guide managerial decision-making (Wheelen et al., 2018).

Detect **emerging trends, anticipate potential disruptions, and prepare structured responses.** Business policy translates environmental insights into consistent managerial actions.

Key implications:

- **Early detection** of external changes supports **proactive decisions.**
- Structured analysis **reduces uncertainty**
- Policies **help standardize organizational responses**

From Environmental Insight to Managerial Action

Managerial action refers to **the decisions and behaviors through which organizations respond to external conditions** while maintaining alignment with strategic priorities (Wheelen et al., 2018).

Environmental analysis only creates value when it informs action. Business policy provides the structure that helps managers respond in a coordinated and responsible manner.

Key implications:

- Insight must lead to informed managerial decisions.
- Policies guide how managers respond to external change.

Understanding Macro-Environmental Categories

The macro environment consists of **broad external forces that influence organizations but remain largely beyond managerial control** (Johnson et al., 2020).

Managers **face numerous external factors**. To analyze them effectively, these forces **must be organized into clear categories** that support **systematic evaluation and policy planning**.

Key points:

- External forces are diverse and interconnected.
- Categorization improves analytical clarity.

The PESTEL Framework

Strategic and Policy Value of PESTEL

PESTEL supports managers in evaluating external trends so organizations can anticipate change and prepare appropriate strategic and policy responses (Johnson et al., 2020).

Key implications:

- Strengthens **environmental awareness**.
- Supports **proactive rather than reactive decisions**.
- Informs **policy development**.
- Enhances organizational preparedness.

Factor	Examples to Consider
Political	- How do government policies affect the organization? - Are there political stability or trade issues?
Economic	- What economic trends influence demand? - How do inflation, interest rates, unemployment affect operations?
Social	- How are demographics, lifestyle changes shaping customer needs? - Are consumer preferences shifting?
Technological	- What new technologies could impact the organization? - Is innovation changing how value is created?
Environmental	- What environmental regulations apply? - Are sustainability expectations increasing?
Legal	- What laws and regulations must the organization comply with? - Are there risks related to employment, competition, or safety?

Political Factors

Political factors refer to government actions and public policy decisions that can influence organizational operations and strategic choices (Wheelen et al., 2018).

Key implications:

- Government **policies** can create opportunities or constraints.
- Political **stability** supports **predictable planning**.
- **Regulatory changes** may require **policy adjustments**.
- Organizations must **monitor public policy developments**.



Economic Factors

Economic factors are conditions within the broader economy that **influence organizational performance, resource availability**, and strategic decision-making (Johnson et al., 2020).

Key implications:

- Economic growth or downturn **shapes market demand**.
- Inflation and interest rates influence **costs and financing**.
- Employment levels affect labor availability.
- Economic **volatility** may require **policy flexibility**.



Social Factors

Social factors refer to **demographic trends, cultural values, and societal expectations** that influence **customer behavior** and **organizational practices** (Johnson et al., 2020).

Key implications:

- Demographic **shifts** affect demand patterns.
- Lifestyle changes **influence** consumption behavior.
- Rising stakeholder **expectations** encourage **responsible practices**.
- Organizations may **need** policy adjustments to align **with social norms**.



Technological Factors

Technological factors refer to **innovations and advancements that influence how organizations create value, operate, and compete** (Johnson et al., 2020).

Technological change can **rapidly alter industries** and often requires organizations to **update strategies and supporting policies**.

Key implications:

- Technological **disruption may transform business models**.
- **Digitalization** affects operational processes.
- Organizations may need **policies to guide technology adoption and data use**.



Environmental Factors

Environmental factors refer to **ecological conditions and sustainability expectations** that influence **organizational responsibilities and operational practices** (Johnson et al., 2020).

Growing environmental awareness **is increasing pressure** on organizations to operate **responsibly and integrate sustainability into policies**.

Key implications:

- Organizations often **establish policies to support responsible practices**.
- Environmental **regulations may require operational changes**.
- **Climate and resource concerns affect operations**
- **Sustainability expectations influence policies**



Legal Factors

Legal factors refer to laws and regulations that govern organizational conduct and establish the boundaries within which firms must operate (Wheelen et al., 2018).

Key implications:

- **Laws shape** acceptable business practices.
- **Regulatory changes** may require **policy updates**.
- **Clear policies** support **lawful and responsible operations**.



Limitations of PESTEL

PESTEL is a diagnostic tool that supports environmental analysis but does not predict future events or guarantee strategic success (Johnson et al., 2020).

Managers should use the **framework critically** and combine it with **judgment and additional analysis**.

Key implications:

- Provides insight **but not certainty**.
- May **oversimplify** complex environments.
- **Requires regular updating** as conditions change.
- Should inform — **not replace** — **managerial judgment** and policy decisions.

Applying PESTEL in Practice

Case: Tesla Considers Entering India

Tesla has been exploring entry into India, one of the fastest-growing automobile markets in the world. The Indian government is encouraging electric vehicle adoption through subsidies and sustainability initiatives aimed at reducing urban pollution.

However, imported vehicles face high tariffs, making Tesla's cars significantly more expensive than many locally produced alternatives. At the same time, charging infrastructure is still developing, and consumers remain highly price sensitive. Several domestic automakers have already introduced more affordable electric models.

India has also emphasized local manufacturing, signaling that foreign companies may need to produce domestically to compete effectively.

Tesla's leadership is now debating whether the Indian market conditions justify entry at this stage.

Case Instructions

1. Read the case carefully and highlight information related to each PESTEL factor.
2. Based on what you highlighted, investigate India's external environment using credible secondary sources. Collect evidence and organize it using the three discussion questions.
3. For each claim you make, include specific supporting evidence (facts, figures, policy details, market indicators, or examples) and note the source.
4. Explain your reasoning clearly so you can justify your judgment during discussion.

Question

1. Using the PESTEL framework, analyze India's external environment and explain how each factor could create opportunities or constraints for Tesla's potential market entry.
2. After completing your PESTEL analysis, which external factors strongly influence Tesla's potential entry into India? Select no more than TWO or THREE factors and justify your choices.
3. Among the factors you identified, which creates the greatest opportunity for Tesla, and which presents the greatest risk? Explain your reasoning.

Recommended Sources for This Case

Global Economic and Policy Data

World Bank : economic indicators, business environment

<https://www.worldbank.org>

International Monetary Fund (IMF): macroeconomic outlook

<https://www.imf.org>

Energy and EV Industry

International Energy Agency (IEA): EV trends, infrastructure, sustainability

<https://www.iea.org>

BloombergNEF : energy transition and EV market insights

<https://about.bnef.com>

Cont'...

Indian Government & Policy

Government of India (Official Portal): national initiatives

<https://www.india.gov.in>

Ministry of Heavy Industries : EV policies and incentives

<https://heavyindustries.gov.in>

NITI Aayog : strategic policy think tank

<https://www.niti.gov.in>

Tesla Official Sources

- <https://www.tesla.com>

<https://ir.tesla.com>

Further reading

Johnson, G., Scholes, K., & Whittington, R. *Exploring Strategy*. Pearson.

Wheelen, T. L., Hunger, J. D., Hoffman, A. N., & Bamford, C. E. *Strategic Management and Business Policy*. Pearson.

Hill, C. W. L., Schilling, M. A., & Jones, G. R. *Strategic Management: Theory and Cases*. Cengage Learning.

Thank you



**European Institute of Innovation,
Entrepreneurship and Technology**

Lessingstraße 79,

13158 Berlin, Germany

Phone: +49 176 55524449

Email: info@eiiet.com

Discover the world of eiIET