GLOBAL EDITION

Concepts in Strategic Management and Business Policy

Globalization, Innovation and Sustainability

FIFTEENTH EDITION

Thomas L. Wheelen • J. David Hunger
Alan N. Hoffman • Charles E. Bamford

Pearson

FIFTEENTH EDITION
GLOBAL EDITION

Concepts in Strategic Management and Business Policy

GLOBALIZATION, INNOVATION, AND SUSTAINABILITY

Strategic Importance of the External Environment

SCANNING THE SOCIETAL ENVIRONMENT: STEEP ANALYSIS

4-2. Identify the aspects of an organization's environment that are most strategically important

The number of possible strategic factors in the societal environment is very high. The number becomes enormous when we realize that, generally speaking, each country in the world can be represented by its own unique set of societal forces—some of which are very similar to those of neighboring countries and some of which are very different.

For example, even though Korea and China share Asia's Pacific Rim area with Thailand, Taiwan, and Hong Kong (sharing many similar cultural values), they have very different views about the role of business in society. It is generally believed in Korea and China (and to a lesser extent in Japan) that the role of business is primarily to contribute to national development. However, in Hong Kong, Taiwan, and Thailand (and to a lesser extent in the Philippines, Indonesia, Singapore, and Malaysia), the role of business is primarily to make profits for the shareholders.[5] Such differences may translate into different trade regulations and varying difficulty in the *repatriation of profits* (the transfer of profits from a foreign subsidiary to a corporation's headquarters) from one group of Pacific Rim countries to another.

STEEP Analysis: Monitoring Trends in the Societal and Natural Environments

As shown in **Table 4–1**, large corporations categorize the natural and societal environments in any one geographic region into five areas and focus their scanning in each area on trends that have corporatewide relevance. For ease of remembering the approach,

TABLE 4–1 Some Important Variables in the Societal Environment

Sociocultural	Technological	Economic	Ecological	Political–Legal
Lifestyle changes	Total government spending for R&D	GDP trends	Environmental protection laws	Antitrust regulations
Career expectations	Total industry spending for R&D	Interest rates	Global warming impacts	Environmental protection laws
Consumer activism	Focus of technological efforts	Money supply	Nongovernmental organizations	Global warming legislation
Rate of family formation	Patent protection	Inflation rates	Pollution impacts	Immigration laws
Growth rate of population	New products	Unemployment levels	Reuse	Tax laws
Age distribution of population	New developments in technology transfer from lab to marketplace	Wage/price controls	Triple bottom line	Special incentives
Regional shifts in population	Productivity improvements through automation	Devaluation/revaluation	Recycling	Foreign trade regulations
Life expectancies	Internet availability	Energy alternatives		Attitudes toward foreign companies
Birthrates	Telecommunication infrastructure	Energy availability and cost		Laws on hiring and promotion
Pension plans	Computer hacking activity	Disposable and discretionary income		Stability of government
Health care		Currency markets		Outsourcing regulation
Level of education		Global financial system		Foreign "sweatshops"
Living wage				
Unionization				

this scanning can be called **STEEP Analysis**, the scanning of Sociocultural, Technological, Economic, Ecological, and Political–legal environmental forces.[6] (It may also be called *PESTEL Analysis* for Political, Economic, Sociocultural, Technological, Ecological, and Legal forces.) Obviously, trends in any one area may be very important to firms in one industry but of lesser importance to firms in other industries.

Demographic trends are part of the *sociocultural* aspect of the societal environment. Although the world's population has grown from 3.71 billion people in 1970 to 7.3 billion in 2015 and is expected to increase to between 8.3 and 10.9 billion by 2050, not all regions will grow equally.[7] Most of the growth will be in the developing nations. It is predicted that the population of the developed nations will fall from 14% of the total world population in 2000 to only 10% in 2050.[8] Around 75% of the world will live in a city by 2050, compared to little more than half in 2008.[9] Developing nations will continue to have more young than old people, but it will be the reverse in the industrialized nations. For example, the demographic bulge in the U.S. population caused by the baby boom after WWII continues to affect market demand in many industries. This group of 77 million people now in their 50s and 60s is the largest age group in all developed countries, especially in Europe. (See **Table 4–2**.) Although the median age in the United States will rise from 35 in 2000 to 40 by 2050, it will increase from 40 to 47 during the same time period in Germany, and it will increase to up to 50 in Italy as soon as 2025.[10] By 2050, one in three Italians will be over 65, nearly double the number in 2005.[11] With its low birthrate, Japan's population is expected to fall from 127.6 million in 2004 to around 100 million by 2050.[12] China's stringent birth control policy (which was recently relaxed to allow couples to have two children) is predicted to cause the ratio of workers to retirees to fall from 20 to 1 during the early 1980s to 2.5 to one by 2020.[13] Companies with an eye on the future can find many opportunities to offer products and services to the growing number of "woofies" (well-off old folks)—defined as people over 50 with money to spend.[14] These people are very likely to purchase recreational vehicles (RVs), take ocean cruises, and enjoy leisure sports, in addition to needing complex financial services and health care. Anticipating the needs of seniors for prescription drugs is one reason Walgreens has grown so fast. It opened its 7000th store in 2009 and by mid-year 2015 had over 8100 stores![15]

To attract older customers, retailers will need to place seats in their larger stores so aging shoppers can rest. Washrooms will need to be more handicap-accessible. Signs will need to be larger. Restaurants will need to raise the level of lighting so people can read their menus. Home appliances will require simpler and larger controls. Automobiles will need larger door openings and more comfortable seats. Zimmer Holdings, an innovative

TABLE 4–2 Current U.S. Generations

	Generation	Born	Age in 2015	% of Total Adult Population
Current U.S. Generations	Greatest	Before 1928	88–100	2%
	WWII / Silent Generation	1928–1945	70–87	11%
	Baby Boomers	1946–1964	51–69	30%
	Generation X	1965–1980	35–50	27%
	Millennials	1980–1996	18–34	30%

SOURCES: Developed from Pew Research Center analysis of census bureau population projections (September 3, 2015), (http://www.people-press.org/2015/09/03/the-whys-and-hows-of-generations-research/generations_2/).

manufacturer of artificial joints, is looking forward to its market growing rapidly over the next 20 years. According to J. Raymond Elliot, Chair and CEO of Zimmer, "It's simple math. Our best years are still in front of us."[16]

Eight current sociocultural trends are transforming North America and the rest of the world:

1. **Increasing environmental awareness:** Recycling and conservation are becoming more than slogans. Busch Gardens, for example, has eliminated the use of disposable Styrofoam trays in favor of washing and reusing plastic trays.
2. **Growing health consciousness:** Concerns about personal health fuel the trend toward physical fitness and healthier living. There has been a general move across the planet to attack obesity. The U.S. Centers for Disease Control and Prevention cites that more than two-thirds of American adults and one-third of American youth are now obese or overweight. A number of states have enacted provisions to encourage grocery stores to open in so-called "food deserts" where the population has virtually no access to fresh foods.[17] In 2012, Chile decided to ban toys that are included in various fast-food meals aimed at children in order to increase the fight against childhood obesity.[18]
3. **Expanding seniors market:** As their numbers increase, people over age 55 will become an even more important market. Already some companies are segmenting the senior population into Young Matures, Older Matures, and the Elderly—each having a different set of attitudes and interests. Both mature segments, for example, are good markets for the health care and tourism industries; whereas, the elderly are the key market for long-term care facilities. The desire for companionship by people whose children are grown is causing the pet care industry to grow by more than 5% annually in the United States. In 2014, for example, 73 million households in the United States spent US$58 billion on their pets. That was up from just above US$41 billion 2007.[19]
4. **Impact of millennials:** Born between 1980 and 1996 to the baby boomers and Generation Xers, this cohort is almost as large as the baby boomer generation. In 1957, the peak year of the postwar boom, 4.3 million babies were born. In 1990, there were 4.2 million births; the Millennials' peak year. By 2000, they were overcrowding elementary and high schools and entering college in numbers not seen since the baby boomers. Now in its 20s and 30s, this cohort is expected to have a strong impact on future products and services.
5. **Declining mass market:** Niche markets are defining the marketers' environment. People want products and services that are adapted more to their personal needs. For example, Estée Lauder's "All Skin" and Maybelline's "Shades of You" lines of cosmetic products are specifically made for African-American women. "Mass customization"—the making and marketing of products tailored to a person's requirements is replacing the mass production and marketing of the same product in some markets. The past 10 years have seen a real fracturing of the chocolate market with the advent of craft chocolate making and flavored chocolates. These products command significantly higher margins and have become a force in the retailing environment. By 2010, 43% of chocolate sales occurred in nontraditional channels.[20]
6. **Changing pace and location of life:** Instant communication via e-mail, cell phones, and overnight mail enhances efficiency, but it also puts more pressure on people. Merging the personal or tablet computer with the communication and entertainment industries through telephone lines, satellite dishes, and Internet connections increases consumers' choices and allows workers to telecommute from anywhere.

7. **Changing household composition:** Single-person households, especially those consisting of single women with children, could soon become the most common household type in the United States. According to the U.S. Census, married-couple households slipped from nearly 80% in the 1950s to 48% of all households by 2010.[21] By 2007, for the first time in U.S. history, more than half the adult female population was single.[22] Those women are also having more children. As of 2012, 41% of all births in the United States were to unmarried women.[23] A typical family household is no longer the same as it was once portrayed in *Happy Days* in the 1970s.
8. **Increasing diversity of workforce and markets:** Between now and 2050, minorities will account for nearly 90% of population growth in the United States. Over time, group percentages of the total U.S. population are expected to change as follows: Non- Hispanic Whites—from 90% in 1950 to 74% in 1995 to 53% by 2050; Hispanic Whites—from 9% in 1995 to 22% in 2050; Blacks—from 13% in 1995 to 15% in 2050; Asians—from 4% in 1995 to 9% in 2050; American Indians—1%, with slight increase.[24]

Heavy immigration from developing to developed nations is increasing the number of minorities in all developed countries and forcing an acceptance of the value of diversity in races, religions, and lifestyles. For example, 24% of the Swiss population was born elsewhere.[25] Traditional minority groups are increasing their numbers in the workforce and are being identified as desirable target markets. Coca-Cola, Nestlé, and Pepsi have targeted African-American and Latino communities for the sale of bottled water after a study by the department of pediatrics at the Medical College of Wisconsin in 2011 found that African-American and Latino families were three times more likely to give their children bottled water as compared to white families.[26]

Changes in the *technological* part of the societal environment can also have a great impact on multiple industries. Improvements in computer microprocessors have not only led to the widespread use of personal computers but also to better automobile engine performance in terms of power and fuel economy through the use of microprocessors to monitor fuel injection. Digital technology allows movies and music to be available instantly over the Internet or through cable service, but it has also meant falling fortunes for movie rental shops such as Blockbuster and CD stores like Tower Records. Advances in nanotechnology are enabling companies to manufacture extremely small devices that are very energy efficient. Developing biotechnology, including gene manipulation techniques, is already providing new approaches to dealing with disease and agriculture. Researchers at George Washington University have identified a number of technological breakthroughs that are already having a significant impact on many industries:

- **Portable information devices and electronic networking:** Combining the computing power of the personal computer, the networking of the Internet, the images of television, and the convenience of the telephone, tablets and Smartphones will soon be used by a majority of the population of industrialized nations to make phone calls, stay connected in business and personal relationships, and transmit documents and other data. Homes, autos, and offices are rapidly being connected (via wires and wirelessly) into intelligent networks that interact with one another. This trend is being accelerated by the development of *cloud computing*, in which a person can access their data anywhere through a Web connection.[27] This is being dramatically improved by companies like Microsoft who are releasing *cloud* versions of their Office package available for rent.[28] The traditional stand-alone desktop computer will someday join the manual typewriter as a historical curiosity.

- **Alternative energy sources:** The use of wind, geothermal, hydroelectric, solar, biomass, and other alternative energy sources should increase considerably. Over the past two decades, the cost of manufacturing and installing a photovoltaic solar-power system has decreased by 20% with every doubling of installed capacity.[29]
- **Precision farming:** The computerized management of crops to suit variations in land characteristics will make farming more efficient and sustainable. Farm equipment dealers such as Case and John Deere now add this equipment to tractors for an additional fee. It enables farmers to reduce costs, increase yields, and decrease environmental impact. The old system of small, low-tech farming is becoming less viable as large corporate farms increase crop yields on limited farmland for a growing population.
- **Virtual personal assistants:** Very smart computer programs that monitor e-mail, faxes, and phone calls will be able to take over routine tasks, such as writing a letter, retrieving a file, making a phone call, or screening requests. Acting like a secretary, a person's virtual assistant could substitute for a person at meetings or in dealing with routine actions.
- **Genetically altered organisms:** A convergence of biotechnology and agriculture is creating a new field of life sciences. Plant seeds can be genetically modified to produce more needed vitamins or to be less attractive to pests and more able to survive. Animals (including people) could be similarly modified for desirable characteristics and to eliminate genetic disabilities and diseases.
- **Smart, mobile robots:** Robot development has been limited by a lack of sensory devices and sophisticated artificial intelligence systems. Improvements in these areas mean that robots will be created to perform more sophisticated factory work, run errands, do household chores, and assist the disabled.[30]

Trends in the *economic* part of the societal environment can have an obvious impact on business activity. For example, an increase in interest rates means fewer sales of major home appliances. Why? A rising interest rate tends to be reflected in higher mortgage rates. Because higher mortgage rates increase the cost of buying a house, the demand for new and used houses tends to fall. Because most major home appliances are sold when people change houses, a reduction in house sales soon translates into a decline in sales of refrigerators, stoves, and dishwashers and reduced profits for everyone in the appliance industry. Changes in the price of oil have a similar impact upon multiple industries, from packaging and automobiles to hospitality and shipping.

The rapid economic development of Brazil, Russia, India, and China (often called the *BRIC* countries) is having a major impact on the rest of the world. By 2007, China had become the world's second-largest economy according to the World Bank. With India graduating more English-speaking scientists, engineers, and technicians than all other nations combined, it has become the primary location for the outsourcing of services, computer software, and telecommunications.[31] Eastern Europe has become a major manufacturing supplier to the European Union countries. According to the International Monetary Fund, emerging markets make up less than one-third of total world gross domestic product (GDP), but account for more than half of GDP growth.[32]

Trends in the *ecological* part of the environment have been accelerating at a pace that is difficult to stay up with. This element is focused upon the natural environment and its consideration/impacts upon the operation of a business. The effects of climate

change on companies can be grouped into six categories of risks: regulatory, supply chain, product and technology, litigation, reputational, and physical.[33]

1. **Regulatory Risk:** Companies in much of the world were already subject to the first commitment period of the *Kyoto Protocol*, which required 37 industrialized countries and the European Community to reduce Greenhouse Gases (GHG) emissions to an average of 5% against 1990 levels. During the second commitment period, parties committed to reduce GHG emissions by at least 18% below 1990 levels in the eight-year period from 2013 to 2020. The European Union has an emissions trading program that allows companies that emit greenhouse gases beyond a certain point to buy additional allowances from other companies whose emissions are lower than that allowed. Companies can also earn credits toward their emissions by investing in emissions abatement projects outside their own firms. Although the United States withdrew from the Kyoto Protocol, various regional, state, and local government policies affect company activities in the United States. For example, seven Northeastern states, six Western states, and four Canadian provinces have adopted proposals to cap carbon emissions and establish carbon-trading programs.
2. **Supply Chain Risk:** Suppliers will be increasingly vulnerable to government regulations—leading to higher component and energy costs as they pass along increasing carbon-related costs to their customers. Global supply chains will be at risk from an increasing intensity of major storms and flooding. Higher sea levels resulting from the melting of polar ice will create problems for seaports. China, where much of the world's manufacturing is currently being outsourced, is becoming concerned with environmental degradation. Twelve Chinese ministries produced a report on global warming foreseeing a 5%–10% reduction in agricultural output by 2030; more droughts, floods, typhoons, and sandstorms; and a 40% increase in population threatened by plague.[34]

   The increasing scarcity of fossil-based fuel is already boosting transportation costs significantly. For example, Tesla Motors, the maker of an electric-powered sports car, transferred assembly of battery packs from Thailand to California because Thailand's low wages were more than offset by the costs of shipping thousand-pound battery packs across the Pacific Ocean.[35]
3. **Product and Technology Risk:** Environmental sustainability can be a prerequisite to profitable growth. Sixty percent of U.S. respondents to an Environics study stated that knowing a company is mindful of its impact on the environment and society makes them more likely to buy their products and services.[36] Carbon-friendly products using new technologies are becoming increasingly popular with consumers. Those automobile companies, for example, that were quick to introduce hybrid or alternative energy cars gained a competitive advantage.
4. **Litigation Risk:** Companies that generate significant carbon emissions face the threat of lawsuits similar to those in the tobacco, pharmaceutical, and building supplies (e.g., asbestos) industries. For example, oil and gas companies were sued for greenhouse gas emissions in the federal district court of Mississippi, based on the assertion that these companies contributed to the severity of Hurricane Katrina.
5. **Reputational Risk:** A company's impact on the environment can affect its overall reputation. The Carbon Trust, a consulting group, found that in some sectors the value of a company's brand could be at risk because of negative perceptions related to climate change. In contrast, a company with a good record of environmental sustainability may create a competitive advantage in terms of attracting and keeping loyal consumers, employees, and investors. For example, Wal-Mart's