

## Business Futures – Notes

### Futurism - forecasting, predictability, uncertainty and scenarios

#### Ways of thinking about the future

There are two ways to think about the future – forecasting and scenarios

- Forecasts → refers to statistical predictions about the future. The timeframe for forecasts are generally 5 – 10 years, as beyond that is generally not accurate
- Scenarios → refers to predicted, plausible, alternative future states. The timeframe for scenarios are usually 10 – 30 years

#### External and Future Environmental Analysis (STEEPL or PESTLE)

<b>Political/Legal Environment = Government Regulation</b>	<ul style="list-style-type: none"><li>• Economic policy</li><li>• Taxes/Incentives</li><li>• Employment law</li><li>• Health and safety law</li><li>• Environmental policy</li><li>• Competition policy</li></ul>
<b>Economic and Financial Environment</b>	<ul style="list-style-type: none"><li>• Inflation</li><li>• Interest rates</li><li>• Exchange rates</li><li>• Credit availability</li><li>• Financial stability</li><li>• Rates of Return</li></ul>
<b>Socio-cultural Environment</b>	<ul style="list-style-type: none"><li>• Language</li><li>• Religion</li><li>• Culture/Customs</li><li>• Demographic trends</li><li>• Health/Education</li><li>• Urbanization</li><li>• Labour force availability and skills</li><li>• Wage levels/Working hours</li><li>• Unionization</li></ul>
<b>Technological Environment</b>	<ul style="list-style-type: none"><li>• Science and technology</li><li>• infrastructure</li><li>• Patent protection</li><li>• Road network/Public transport</li><li>• Telephony/Internet capacity</li><li>• Air transport</li><li>• Power supply and reliability</li><li>• Ports</li></ul>

<b>Ecological Environment</b>	<ul style="list-style-type: none"> <li>• Resource depletion</li> <li>• Climate change</li> <li>• Pollution</li> <li>• Water supply</li> <li>• Natural disasters</li> <li>• Sustainable development</li> </ul>
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Example of PESTEL Factors

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<i>Political</i>	<i>Economical</i>	<i>Social</i>	<i>Technological</i>	<i>Environmental</i>	<i>Legal</i>
Corporate/ consumer taxation	Overall/ industry growth	Disposable income	New discoveries and developments	Environmental regulation and protection	Changes in employment law
International trade regulations	Credit availability and interest rates	Education	Speed of technology transfers		Regulation of competition
Overall government attitude	Foreign exchange	Demographics, e.g. age, ethnic mix	Internet		Health and safety regulations
Influence of political alliances	Minimum wages	Labour/social mobility of employees	Energy use and cost	Consumer awareness	Government antitrust regulations
Local inducement policies	Stage of business cycle	Overall living conditions and lifestyle changes	Technological obsolescence		Fishing quotas
Political stability	GDP and Inflation	Attitudes towards work	Decreases in transportation costs		Consumer protection
Government spending	Consumer confidence	Fashion and fads	Scientific advances		
Trade balances	Unemployment	Health and welfare	Access to raw material		

## Globalisation – wicked problems and opportunities

### What is globalization?

Globalization refers to the increased connectedness of countries and their economies. Overtime, as a result of the dismantling of industry protection around the world, the global economy has become increasingly interdependent

### What are wicked problems?

Complex and ill-defined problems are often defined as “wicked problems”. This concept was developed by Horst Rittel and Melvin Webber in 1973

Wicked problems have the following characteristics:

- We can't define them
- There is no stopping a wicked problem
- They have never been solved before
- There is no such thing as a perfect solution
- Wicked problems are unique

*Note: globalization has created a number of wicked problems!*

### Globalization examined using the PESTLE framework

When analyzing the concept of globalization using the PESTLE framework, certain aspects of the PESTLE model have not been “globalized” as much as others. In order (from least globalized to most): legal, political, socio-cultural, environmental, economic, technological and then financial

#### Legal Globalisation

Around the world, international harmonization regarding the law is limited, with nations and even states within nations having separate legal systems

#### Political Globalisation

There is no political harmonization on a global scale, and there is no major international body that promotes political harmonization

Whilst there are international organisations such as the United Nations and the World Trade Organisation:

- The UN has little influence in powerful nations (Ie: US, China, Russia)
- The UN can establish guidelines, but up to member nations to enforce
- WTO is focused on promoting economic, rather than political globalization

## Socio-Cultural Globalisation

In today's world, there are a number of different cultures, and thus significant cultural differentiation. This creates barriers that prevents the global harmonization of culture

Moving into the future, it is expected that there will be cultural hybridization and eventually cultural convergence

Cultural hybridization → refers to the mixing of cultures and the integration of the global and local leading to unique combinations

Cultural convergence → refers to when cultures are subject to many of the same global flows and tend to grow more alike

## Environmental Globalisation

There are a number of global environmental issues that have arisen due to the process of globalization – ie: climate change, ozone depletion, etc...

Overall, global environmental governance has been ineffective, and there has been little progress in solving these global environmental issues.

Whilst there have been improvements at addressing these issues, it can be argued that these issues are wicked problems that require much more work

## Economic Globalisation

Economies over time have become more interconnected, and this is largely due to the process of globalization

Economic liberalization has been driven by a number of factors including:

- The formation of international organisations – ie: the WTO
- The establishment of free trade agreements – ie: China-Australia FTA
- Dismantling of industry protection

## Technological Globalisation

The transfer of technological information and ideas across national boundaries is, has and will be strong

First half 20<sup>th</sup> century → jet engine, tanks, mobile phones, etc...

Second half 20<sup>th</sup> century → discovery of DNA, computers, printers, etc...

21<sup>st</sup> century → internet, biological advances

## Financial Globalisation

There is strong international financial harmony, with currencies, share markets, and major commodities highly interlinked on a global scale

### **Drivers of globalization**

There are a number of drivers of globalization including technology, competition, and political drivers

Technology → advances in technology relating to communication (such as the advent of the internet) and transportation (such as the development of standardized container ships) have increased the movements of goods, services, capital and people on a global scale

Competition → the process of competition has driven businesses to access overseas markets in an effort to benefit from the comparative advantages each country has to offer and to increase levels of standardization, in an effort to ultimately lower their cost base

Political → multilateral and bilateral reductions in industry protection around the world have removed trade barriers, and encouraged the flow of goods, services, labour and capital beyond national boundaries

### **The Global Context of Business**

The context of businesses today is globalizing, complex, and often, wicked and uncertain. In today's environment, the majority of business managers feel that their organizations are rather unprepared to deal with increasing complexity and growing need for innovation

Businesses today operate in both formal and informal economies

#### **Formal vs Informal Economies**

A formal economy → monitored and controlled by government, and its activities are included in the Gross Domestic Product of a country

*Note → GDP refers to the market value of goods and services produced within a nation, usually over the period of a year*

An informal economy → is not monitored and controlled by government, and its activities are not included in the Gross Domestic Product of a country. Activities in an informal economy don't get recorded, and may include illegal activities

## Strategic Management

Strategic management theories and frameworks will help managers make better decisions for the future of their business

For strategic management theories and practices to be effective, a business must conduct a strategic analysis. This includes:

- PESTLE Analysis
- Scenario Generation
- Industry Analysis
- Customer/Marketplace Trend Analysis
- Environmental Forecast
- Competitor Analysis
- SWOT Analysis

Note → an effective strategic analysis ensures that a businesses strategy is central, integrated, externally oriented, and assists to achieve the businesses objectives

### Porters 5 Force Industry Analysis

## Porter's 5 Force Industry Analysis within PESTEL External Environment



## Understanding Industry Structures, Market Environments, and Changing Economic Paradigms

In order for a business to succeed in the ever-changing modern business environment, they should **conduct continual macro environmental and micro environmental studies**

### PESTLE Analysis

A PESTLE analysis can be used to **analyse the macro-environment of a business**

#### 1. Political and Legal Environment = Government Regulation

- Economic policy
- Taxes/Incentives
- Employment law
- Health and safety law
- Environmental policy
- Competition policy

#### 2. Economic and Financial Environment

- Inflation
- Interest rates
- Exchange rates
- Credit availability
- Financial stability
- Rates of Return

#### 3. Socio-cultural Environment

- Language
- Religion
- Culture/Customs
- Demographic trends
- Health/Education
- Urbanization
- Labour force availability and skills
- Wage levels/Working hours
- Unionization

#### 4. Technological Environment

- Science and technology
- infrastructure
- Patent protection
- Road network/Public transport
- Telephony/Internet capacity
- Air transport
- Ports
- Power supply and reliability

#### 5. Ecological Environment

- Resource depletion
- Climate change
- Pollution
- Water supply
- Natural disasters
- Sustainable development