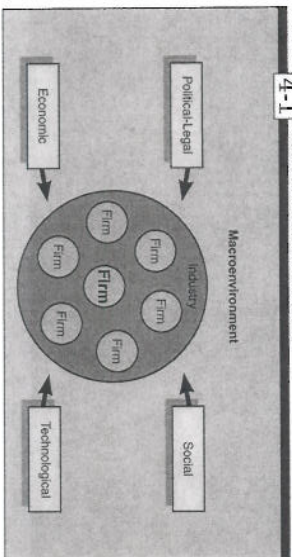




FIGURE 4-1 Macroenvironmental Forces



Macroenvironment
The general environment that affects all business firms in an industry and includes political-legal, economic, social, and technological forces.

PEST
An acronym referring to the analysis of the four macroenvironmental forces: Political-legal, Economic, Social, and Technological.

After the industry has been clearly defined and its prospects for profits identified, forces outside the industry should be considered. Constant changes in these forces present management opportunities and challenges for strategic managers. Hence, it is important to understand how these forces collectively influence the industry.

Every organization exists within a complex network of external forces. Together, these elements comprise the organization's macroenvironment. The four categories of macroenvironmental forces are political-legal, economic, social, and technological (see Figure 4-1). The analysis of macroenvironmental factors may be referenced as **PEST** (an acronym derived from the first letter of each of the four categories of forces). The effects of macroenvironmental forces on a firm's industry should be well understood before strategic options are evaluated.

4-1 Analysis of the Macroenvironment

Each macroenvironmental force embodies a number of key issues that vary across industries. Some issues are specific to a single force whereas others are related to more than one force. Automobile safety, for example, has political-legal (e.g., legislation requiring that safety standards be met), social (e.g., consumer demands for safe vehicles), and technological (e.g., innovations that may improve safety) dimensions. In such situations, one needs to understand how the various macroenvironmental forces combine to influence industry behavior and performance.

Firms operating in multiple markets may be affected in different manners by macroenvironmental forces in each market. For example, wide roads and relatively modest fuel taxes (i.e., political/legal factors), a culture that reinforces the automobile as a means of personal expression (i.e., a sociocultural factor), and a high standard of living (i.e., an economic factor) suggest higher demand for moderate to large vehicles in the United States. In contrast, narrow roads, higher fuel taxes, a view that a vehicle is more about transportation than about personal expression, and less disposable income suggest higher demand for smaller cars in Latin American countries. Hence, the application of Porter's model to firms operating in many different industry structures within a single nation or, notably, many different nations can be quite cumbersome.

Although large organizations and trade associations often attempt to influence change in the macroenvironment, these forces are usually not under the direct control of business organizations. On occasion, a large, dominant firm such as Wal-Mart may be able to exert some degree of influence over one or more aspects of the macroenvironment. For example, the giant retailer's political action committee contributed about \$1 million to candidates and parties in the United States in both 2003 and 2004.¹ However, this level of influence is not common because strategic managers typically seek to enable a firm to operate effectively within largely uncontrollable environmental constraints while capitalizing on the opportunities provided by its environment.

The key distinction here is strategic managers must first identify and analyze these national and global macroenvironmental forces and understand how each force affects the *industry* in which they operate before addressing firm-specific strategy concerns. Hence, understanding a force's broad effects should precede understanding its specific effects. Applications of these forces that are unique or specific to the firm are considered as opportunities and threats later in the strategic management process.

4-2 Political-Legal Forces

Political-legal forces include such factors as the outcomes of elections, legislation, and judicial court decisions, as well as the decisions rendered by various commissions and agencies at every level of government. Some regulations affect many or all organizations. When the Massachusetts state legislature passed a bill in 2006 to require that businesses provide health insurance for its workers, all firms operating in the state were affected.² When the U.S. Supreme Court ruled in 2007 that the Clean Air Act applies to car and truck carbon dioxide emissions, carmakers knew immediately that higher federal fuel economy standards were likely forthcoming.³

Industries are often affected by legislation and other political events specific to their line of business, however. Consider the following examples: The U.S. Highway Traffic Safety Administration constantly tests cars and trucks sold in the United States and pressures carmakers to improve safety performance.⁴ Fuel economy standards can require that producers develop new vehicles or modify existing ones to meet average fuel economy targets, which can be a costly venture. When the Bush administration proposed higher minimum standards for fuel economy, analysts estimated that the industry would spend more than \$8 billion to comply, adding \$275 to the price tag of a large truck by 2011.⁵

Military conflicts can also influence how certain industries operate, especially those with tight global ties. For example, during the 2003 war in Iraq, many firms modified their promotional strategies, fearing that their television advertisements might be considered insensitive if aired alongside breaking coverage of the war. At the same time, others began to plan for meeting the anticipated future needs in Iraq for such products as cell phones, refrigerators and automobiles. After the previous Iraqi regime was ousted in mid-2003, U.S. firms began to compete vigorously for lucrative reconstruction contracts.⁶

It is not safe to assume that firms always seek less regulation. In some instances, firm leaders prefer to operate within clear boundaries established by governments. In 2004, for example, Ford chief Bill Ford said he would support higher fuel taxes in exchange for incentives to produce more energy-efficient vehicles.⁷ In another example, following the sharp declines in air travel in the United States, airlines on the verge of bankruptcy campaigned for and received \$15 billion in government support in 2002 and an additional \$2.9 billion in 2003.⁸