

MAKING SENSE OF YOUR EXTERNAL ENVIRONMENT: INTRODUCTION

The art and science of making sense of your external environment is often called strategic analysis (sometimes called environmental or external analysis) and is about looking at what is going on OUTSIDE your organisation, considering what is likely to be happening in the future and working out:

- How it might affect your organisation
- What your response might be to likely changes

The focus is 'external' because increasingly organisations are appreciating the powerful influence of external factors and are learning to manage their response to those, rather than assume there is nothing they can do.

Strategic analysis is about being clear about your organisation's overall direction and context, understanding what may change now and in the future, drawing on both past experience and current reality, considering the implications of such change, setting out options for the future and thenas a result of this deeper and more extensive knowledge, making strategic decisions and putting these into a plan.

WHY UNDERTAKE STRATEGIC ANALYSIS?

Strategic analysis is fundamental to your organisation's effectiveness because it helps you to:

- anticipate what *might* happen (and the likelihood) and be prepared for it
- work out what *will* happen, and make the most of this new knowledge by considering the best response
- work out where knowledge about possible future events lies in your organisation; it can lie with front line staff as much as with those more senior

Incorporated into your strategy and plans, strategic analysis will lead to clearer, more relevant goals, better quality decisions, support innovative development, help to improve the quality and/or quantity of services and facilitate a more secure future as you are better prepared for what will happen.

Some PRACTICAL BENEFITS for your organisation of strategic analysis include:

- **SUSTAINABILITY** – to ensure that your organisation survives
- **FUNDING APPLICATIONS** – to be able to demonstrate your organisation's relevance and viability more clearly
- **SETTING THE RIGHT GOALS** – to help you make the right decisions to make your organisation more effective
- **EXTERNAL FOCUS** – to be effective, your organisation has to be able to respond to opportunities and threats
- **CLARITY OF EXPECTATIONS** – to your stakeholders to ensure clarity of mission and future development
- **WHOLE ORGANISATION THINKING** – to help you work out how different drivers might affect different elements of your organisation and perhaps identify issues that had previously not been considered

What Chief Executives said about strategic analysis during a Yorkshire and Humber workshop in 2007:

..... “it can make organisations less fearful”

..... “we can offer better services for our beneficiaries”

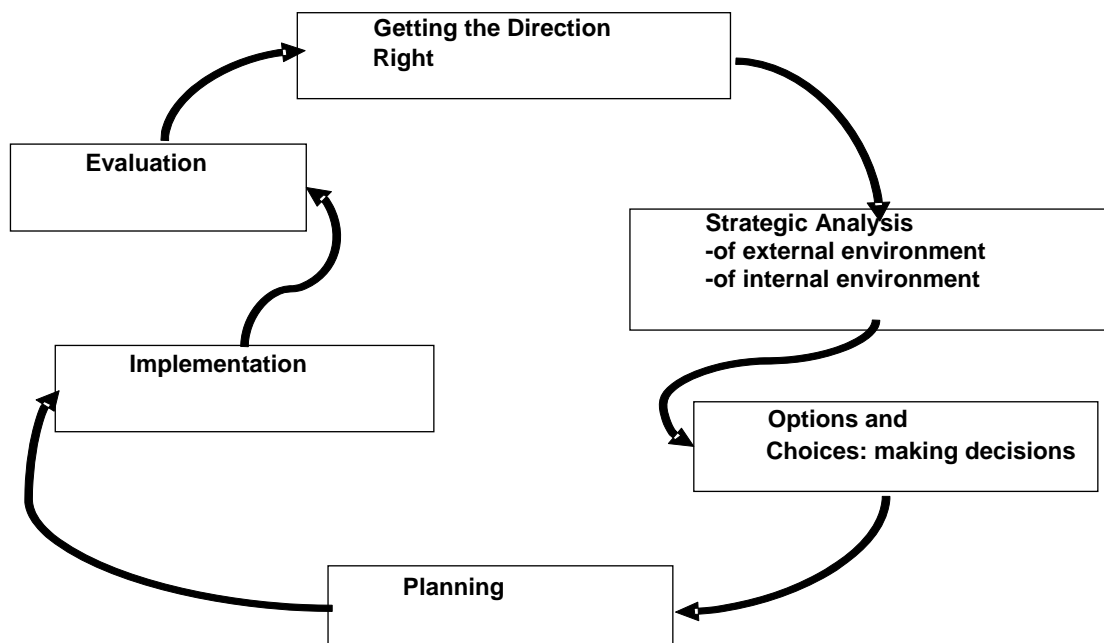
..... “it increases our success rate in terms of income generation”

..... “it enhances our influencing ability and therefore increases our impact”

NB: “forward thinking” was found to be the fourth most common skill gap in the 2007 Voluntary Sector Skills Survey (<http://www.ncvo-vol.org.uk/publications>)

WHERE DOES STRATEGIC ANALYSIS FIT WITHIN STRATEGIC PLANNING?

Below is an illustration of the strategic planning cycle. The cycle starts with making sure you have the overall direction of the organisation right:



The strategic planning cycle illustrates that strategic analysis is the link in a chain between getting your overall direction right and making the right decisions. A vital element of strategic analysis involves looking at the external environment; you will make better decisions if you understand the influences from the outside world to which you might have to respond in the future.

WHAT IS INVOLVED IN STRATEGIC ANALYSIS OF THE EXTERNAL ENVIRONMENT?

- SEARCHING** Finding out what information to look for; opening up your thinking; thinking creatively and laterally
- SORTING** Categorising and checking to make sure that you have everything you need
- SIFTING** Narrowing down, making decisions about what is and isn't relevant: concentrating on issues that will help or hinder your organisation's ability to deliver its mission and that might affect those with whom you work
- SELECTING** Prioritising by deciding what is vital, what is important and what is merely interesting

The key steps of strategic analysis are:

1. Mapping the drivers that could impact your organisation (external trends or forces that may have a positive or negative impact)
2. Sorting them into the vital, the important and the interesting
3. Carrying out further research into the drivers that matter to you
4. Considering the implications of these drivers for your organisation and generating opportunities and options for your organisation
5. Taking strategic action – making decisions about your response

Steps 1-4 will be looked at during this workshop; steps 4 (in more detail) and 5 in the next workshop.

1. MAPPING THE DRIVERS

Definitions:

Drivers – major forces or trends that could positively or negatively shape or influence the future of your organisation

Mapping - identifying and recording drivers

When talking about strategic analysis, we often use the term “drivers” – these are major forces or trends outside of your organisation that could positively or negatively shape or influence the future of your organisation. We use the term “mapping” to mean identifying and recording.

The best place to start the quest for relevant drivers is at the heart of your organisation. Ask yourself:

- What is the difference your organisation wants to make?
- What change do you want to see as a result of your efforts?

Keep this in mind when you start to sort and sift the information you identify in your search. It will help you to isolate the factors that will really help you make a difference to your beneficiaries.

With your mission as the backdrop, the first step is to open up your thinking about the external environment and the numerous drivers.

PESTEL template

PEST is a widely used mnemonic to help us remember the key categories or headings used when carrying out strategic analysis i.e. the:

Political
Economic,
Social and
Technological factors in the external environment.

Sometimes it's represented as PESTEL (the E and the L stand for **E**nvironmental and **L**egal) or STEEPLE (with the addition of **E**thical). SEE THE TEMPLATE BELOW. Decide whether to keep to the original PEST or the expanded version; perhaps try both.

Like all tools, PESTEL has some shortcomings. For example:

- We feel we must produce something under each heading whether it's relevant or not
- Once you've made a list under each heading you may feel so pleased and stop, when the process has only just started!
- Sometimes organisations do the PESTEL analysis for the sake of it, rather than because they really understand the importance of bringing the external environment into the organisation's strategic thinking.

Nevertheless, PESTEL can be a useful way to start to think about what's going on in the external environment and help you identify important drivers.

PESTEL framework

It might help you use the PESTEL headings, but don't let them restrain you. Perhaps you may like to use an additional or alternative heading such as 'management'?

Political	Economic
Social	Technological
Legal	Environmental Ethical

2. SORTING DRIVERS INTO THE VITAL, THE IMPORTANT AND THE INTERESTING

Narrowing down the list of drivers you have identified, making decisions about what is relevant, and what is vital to your organisation.

Isolating the factors that will really help you make a difference to your beneficiaries.

Your organisation's mission

The best place to start sifting relevant information is to remember what is at the heart of your organisation: the reason why your organisation exists.

- What is the difference your organisation wants to make?
- What is the impact you want to see as a result of your efforts?

Keep this at the front of your mind as you go through the exercise.

Critical success factors

Linked with the impact you want to make are the factors that are critical to your organisation's success and ability to deliver your mission. Most organisations share some broad factors that are critical to their success i.e., the things they have to do well:

- Understand and meet beneficiary needs
- Ensure income to cover costs and invest in future sustainability
- Develop relationships with other organisations to ensure that the wider networks of influence and relationships are working to the advantage of beneficiaries

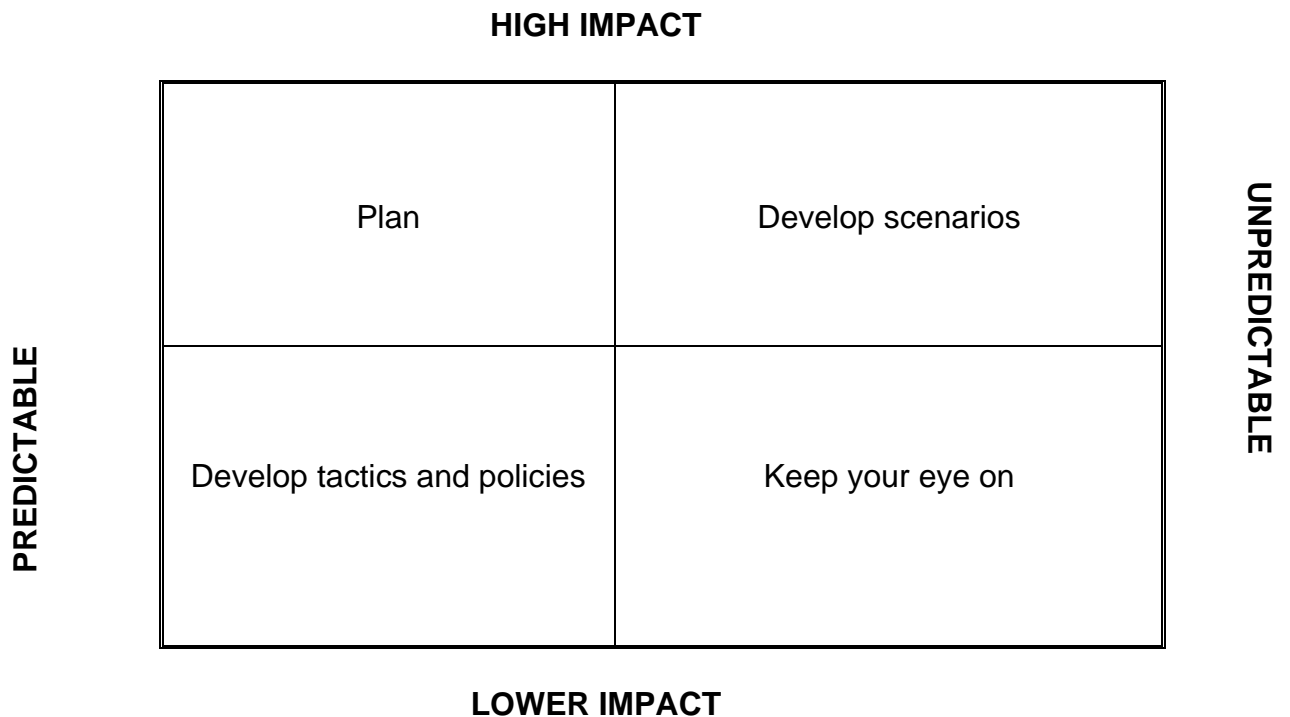
IMPACT v PREDICTABILITY

Sorting the high/low impact and the predictable/unpredictable

When deciding which drivers are the ones that really matter to your organisation it helps to think about their level of IMPACT and PREDICTABILITY. You might want to prioritise, for example, those with a potentially high impact that are predictable. It is often these drivers that need to be part of your strategic plan; you need to work hard to consider their implications and make some decisions about how you will deal with them in the future.

As you consider the drivers you've collected together from your PESTEL exercise, sort them into changes you are fairly certain about and things that are less certain, where the implications are more unpredictable. While doing this, try to identify those with potentially high impact.

Record your ideas on what drivers belong where in this template:



Uncertain drivers, where you are not clear about the drivers and/or their likely implications, are often those with the greatest potential impact because you are less likely to be able to prepare.

SOME TIPS ON SORTING & SIFTING:

- **Repetition:** the destinies of many different organisations and individuals are intertwined, so drivers may be repeated in more than one box. This is a good thing as it will show you the drivers that you need to prioritise for attention.
- **Numbers of drivers :** expect to identify say :
 - 3 or 4 drivers that will be **vital** to the future strategic direction of your organisation and those with whom you work
 - another 4 that are **important**
 - perhaps another 3 that are **interesting** enough to warrant keeping your eye on.
- **Group work can be very helpful**

Try pulling a group together to help you sift, sort and filter to find the really vital drivers. If you can get a mix of people you will find that different perspectives can create something really valuable. If you can, include some of your beneficiaries.
- **The long or the short game?**

Thinking about the length of time before a driver will affect your organisation is an important way to filter and prioritise your information. Some things may have to be left on a back burner until a future date or when things have become a bit clearer. Keep the longer term things on a list though to ensure that you don't lose this valuable information and make sure you revisit it annually.

3. CARRYING OUT FURTHER RESEARCH INTO THE DRIVERS THAT MATTER TO YOU

There are three important categories of information about your key drivers:

- What's already known by you and those around you
- What's readily available from outside your organisation, often analysis produced by others which may only need adapting slightly to meet your needs
- What needs more effort on your part to seek out and analyse

The 'already known' information is part of your organisation's knowledge bank and exists either in documents or in people's heads. You might be surprised just how much is lying around. You just need to tease it out and store it in an accessible way, ready for analysis. Given how closely people in your organisation work with the issues that your beneficiaries face they can be seen as 'experts'; you may just need to do some filtering.

The 'readily available' information is from outside your organisation where someone else has collected, analysed and stored it for you – you just need to find and access the information.

The Third Sector Foresight website contains useful information to help this search. As well as giving the basics on each of the drivers included in the bank, they give signposts to further research and related websites.

The other information is new knowledge that needs to be sought out, it needs effort to seek it out. You might wish to commission further research into topics that you know are vital, but about which you can find little in the way of readily available information.

One quick win might be to post a question on the Third Sector Foresight website <http://network.3s4.org.uk/forums> and see if anyone else can help, or have a read through these posts and see if anyone has discussed the issues you are looking at.

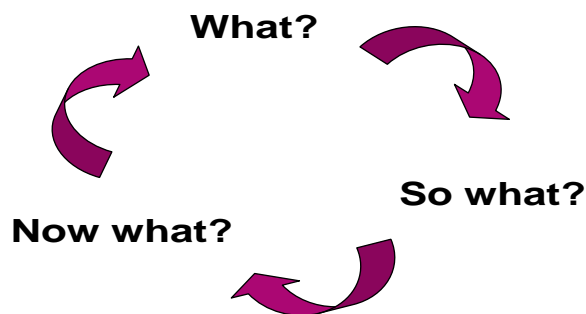
You can adjust how much emphasis you give to these different elements according to how much time you have to devote to this aspect of strategic planning.

4. CONSIDERING THE IMPLICATIONS OF THESE DRIVERS FOR YOUR ORGANISATION

So far you have identified the **what** – the key drivers that may affect your organisation and its beneficiaries in the future.

The next two questions in the chain are '**so what**' (might this mean)? and '**now what**' (should we do about it)?

This is shown as a continuous cycle below, because of course you never stop asking the questions:



What? = scanning the external environment to identify and prioritise the drivers

So what? = considering the implications for your organisation and key stakeholders, spotting opportunities (and threats and risks)

Now what? = considering the next steps your organisation might want to take:

- honing the opportunities down
- creating some strategic options
- making decisions about future plans

The Assessment Grid encourages you to ask '**so what**' - to consider the impact of each of your **key drivers** against different aspects of your organisation. This will help to extract the implications and opportunities across the whole range of your organisation's activities. It is important to really open up your thinking to cover all possible implications and opportunities....

THE ASSESSMENT GRID

So what might be the impact on your organisation? What new challenges and risks might emerge? What opportunities might there be for improving effectiveness and impact? Use the template to really explore implications; don't do any editing yet, leave that until the next stage. Let your mind roam free!

	How could each driver affect your organisation? What opportunities does this create?						
	External			Internal			
Your Key Drivers	Users and their needs	Funders and their priorities	Relationships & influence	Workforce (paid, volunteer) and Trustees	Your organisation's work (services and activities)	Governance including accountability & evaluation	Systems, Skills, Technology (communications, administration, management etc)
Driver 1							
Driver 2							
Driver 3							

(NB you don't have to fill in every box!)

SOME TIPS ON STRATEGIC ANALYSIS

- Remember that the future is uncertain – you can only anticipate what might happen you can't predict the future
- Strategic analysis cannot forecast precisely what is going to happen but it can help you to keep an eye on emerging developments and where necessary, adapt to changes in your external environment
- Don't discount the power of intuition, luck and gut instinct but channel these into a clear process of checking and analysing what you believe to be relevant or true
- Strategic analysis is a continuous process not a one off event or activity
- It's not always linear
- Be careful not to go off on a tangent, which is easy to do when you are finding lots of interesting and seemingly useful information. Remember your Mission – what you are there to do

INFORMATION & REFERENCES

NCVO Third Sector Foresight

NCVO Third Sector Foresight helps voluntary and community organisations to understand how the world is changing around them and provide tools to help organisations respond through better decision making.

Third Sector Foresight website <http://www.3s4.org.uk/> which includes a searchable bank of drivers, the facility for you to store the drivers you are interested in, discussion forums about drivers, and much more

Voluntary Sector Strategic Analysis provides concise and relevant information about drivers affecting the VCS, analysis of the implications and suggested strategic actions

Future Focus is a series of introductory pocket guides to help organisations understand important trends that may impact on them in the future

ICT Foresight reports explore how ICT is transforming how voluntary and community organisations work.

The latter 3 publications can be found at <http://www.ncvo-vol.org.uk/publications>

Networking opportunities: the free Foresight Network was set up to disseminate regular information about strategic issues to leaders and planners in the VCS, and to facilitate peer support and knowledge sharing. Members receive the monthly NCVO Third Sector Foresight Bulletin.

Knowhow Nonprofit

This is a new website being developed by the Cass Business School's Centre for Charity Effectiveness to provide free learning resources specifically for people working in our sector. The site has a section covering all aspects of strategy, including analysis of the external environment

<http://knowhownonprofit.org/organisation/strategy>

Further reading on drivers and strategic analysis:

Bryson, John M (1995) Strategic Planning for Public and Nonprofit Organisations Jossey Bass: San Francisco

Copeman, C, Bruce, I, Forrest, A, Lesirge, R, Palmer, P and Patel, A (2004) Tools for Tomorrow: A practical guide to strategic planning for voluntary organisations, London, NCVO

Copeman, C (2006) Picture This: A guide to scenario planning for voluntary organisations, London, NCVO

Copeman, C and Griffith, M (2007) Looking Out: how to make sense of your organisation's environment, London, NCVO

The NCVO publications can be found at <http://www.ncvo-vol.org.uk/publications>