CHAPTER- 1 BUSINESS ENVT.

BASICS-
➢ Each business org. operates in its unique envt.. Envt. influence businesses & also gets influenced by it. No business can function free of interacting & influencing forces that are outside its periphery.
➢ A business can be defined as any activity consisting of purchase, sales, manufacturing, processing &/or marketing of products/services.
➢ Two impt. conclusions drawn by Peter F Drucker regarding business –
  • It is created & managed by people. There will be a group of people who will take decisions that will determine whether it will prosper or decline, survive or eventually perish.
  ▪ It cannot be explained in terms of profit. Profit maximisation is selling at higher prices. Profit maximisation is attached with long term perspective to include non-financial factors, such as, goodwill, relations, etc (wealth maximisation)

OBJECTIVES-
Business functions to cater the material requirements of society. Its main objectives are-
➢ PROFITABILITY-
  Business exists for profit. It accrues as surplus to the owners. It is their share, as wages are the share of workers. People invest in business for getting a return. It is a reward for risk taking, so far as the owners are concerned. It is regarded as the overall measure of performance. Profitability is treated as a financial yardstick for measuring business efficiency & for evaluating managerial competence.
➢ EFFICIENCY-
  Being an operational objective, it is defined as choosing appropriate means to achieve their goals, doing things in the best possible manner & utilising resources in the most suitable combination to get highest productivity & to achieve suitable input-output ratios of funds, resources, etc.
➢ GROWTH-
  It is a promising & popular objective which may take enterprise along relatively unknown & risky paths, full of promises & pitfalls. Growth may take one or other forms, like Increase in assets/manufacturing facilities/sales volume/profits/market share, etc.
➢ STABILITY-
  Being a cautious, conservative objective, it is a strategy of least resistance in a hostile external envt.. A stable & steady enterprise minimises managerial tensions by demanding less dynamism.
➢ SURVIVAL-
  It is the basic, implicit & most obvious objective of an enterprise, which gains more value & prominence during initial establishment stage & general economic adversity.

CHARACTERISTICS OF BUSINESS ENVT.-
➢ COMPLEXITY-
  Envt. consists of number of factors, events, conditions & influences arising from different sources, that interact with each other to create entirely new sets of influences. This makes environment complex, that is somewhat easier to understand in parts but difficult to grasp in totality.

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➢ **DYNAMISM/UNCERTAINTY.**
There is dynamism in the envt. which is responsible for change in its shape & character. No matter how unpredictable or how fast the changes are, it is imp. to try to understand future external influences, however, it is difficult to do so.

➢ **MULTI-FACETED.**
A particular change in the envt. may be viewed differently by different observers. It is frequently seen that a same development is seen as an opportunity by one company & threat by another company.

➢ **FAR REACHING IMPACT.**
The growth & profitability of an org. depends critically on the environment in which it exists. Any change in envt. impacts org. in several different ways.

**PROBLEMS IN UNDERSTANDING ENVTL. INFLUENCES**

➢ **COMPLEXITY + DYNAMISM/UNCERTAINTY** (Same as above)
➢ **COMPLEXITY** (Managers tend to over-simplify such complexity by focussing on those aspects that have been historically impt., thus, creating bias)
➢ **DIVERSITY**
The envt. encapsulates many different influences. Listing all conceivable envtl. Influences may be possible, but may not be of much use as no overall picture of really impt. influences actually emerges from it.

**FRAMEWORK TO UNDERSTAND ENVTL. INFLUENCES**

![Framework Diagram]

**WHY ENVTL. ANALYSIS?**
1. Provides an understanding of current & potential envtl. Changes
2. Provides input for strategic decision making as Data collection is not enough. Information must be useful
3. Facilitate & foster strategic thinking through challenging current wisdom by bringing fresh viewpoints in org

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COMPONENTS OF BUSINESS ENVIRONMENT -

1. **External Env.** includes factors outside an org., providing opportunities/posing threats
2. **Internal Env.** includes factors within an org., imparting strengths/causing weakness
3. Opportunity is a favourable condition, which strengthen org.’s position
4. Threat is an unfavourable condition, which creates risk/causes damage to the org.
5. Strength is an inherent capacity used to gain strategic advantage over competitors
6. Weakness is an inherent limitation, which creates strategic disadvantage.

**RELATIONSHIP B/W ORG. & ENVT.** -

1. **EXCHANGE OF INFORMATION** -
   Org. scans external envt, generates imp. info. & uses it for its planning, decision making & control purposes. Information generation (current + projected) is one way to get over problems of uncertainty & complexity of external envt.
   Org. also transmits information to several external agencies. Other orgs & individuals may be interested in organisational information, eg, advertisements, annual reports, etc.

2. **EXCHANGE OF RESOURCES** -
   Org. receives inputs from the external envt. by competing &/or collaborating with other orgs to ensure consistent supply. It employs inputs to produce output of products/services. Orgs need external envt. for disposal of its output (Product/service) to wide range of clientele. There is also an interaction process (perceive needs of external envt & cater/satisfy them).

3. **EXCHANGE OF INFLUENCE & POWER** -
   External envt. holds considerable power over org. by offering opportunities, incentives, rewards, constraints, threats, restrictions, etc. It can even impose its will over org. & can force it to fall in line.
   Orgs can itself puts considerable power over external envt. It increases the autonomy & freedom of action of the orgs. It can dictate terms to the external forces & mould them to its will.

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STRATEGIC RESPONSES TO ENVIRONMENT-

- **LEAST RESISTANCE**: In it, businesses just manage to survive by way of coping with their external envt. They are solely guided by signals of external envt. They are not ambitious, & content with taking simple paths.

- **PROCEED WITH CAUTION**: In it, businesses take an intelligent interest to adapt with changing external envt. They monitor envtl. Changes, analyse their impact on their own goals & activities and translate their assessment in terms of specific strategy. It is a sophisticated strategy.

- **DYNAMIC RESPONSE**: At still higher sophisticated level, businesses regard external envt. as partially manageable & controllable by their actions. With highly dynamic & powerful feedback systems, these convert threats into opportunities. These are confident of their own strengths + weakness of their external envtl. adversaries.

MCCRO & MACRO ENVIRONMENT-

- Micro Environment is related to small area or immediate periphery of org. It affects the org. regularly & directly on short-term basis. It includes customers/consumers, competitors, suppliers, intermediaries, org. itself, etc. It is imp't. to study this envt. in order to stay competitive.

- Macro Envt. is largely external & beyond the direct influence & control of org., but it exerts powerful influence over organisational functioning. It includes such factors with which orgs comes into frequent contact during functioning.

ENVIRONMENTAL SCANNING-

- It is a process by which orgs monitor their external envt. to identify opportunities & threats affecting their business for the purpose of taking strategic decisions.

- It is a process of gathering information regarding Company’s envt., analysing it, forecasting the impact of all predictable envtl. Changes.

- Helps managers to decide the future path of org.

- It must identify opportunities & threats existing in envt.

- Factors to be considered for envtl. Scanning-
  - **Events** – imp't. + certain + specific occurrences taking place in different envtl. Sectors
  - **Trends**- general course of action along which events take place. It is grouping of similar/related events that tends to move in given direction (suggests a pattern of change)
  - **Issues**- current concerns that arise in response to events & trends
  - **Expectations**- demands made by interested groups in light of their concerns for issues.

COMPETITIVE ENVIRONMENT-

- Although competition makes organisational working difficult, it is neither a coincidence nor a bad luck.

- Even large public sector monopolies are gradually getting privatised & facing competition.

- Competition spells out freedom of entry & exit in the market & affects its prices & scale of operations.

- It affects rate of growth, income distribution, consumer welfare, etc. Hence, there is a need to study competitor’s strategies, profits, costs, products, market share, etc.

- Separately identify & concentrate on significant competitors.
COOPERATION IN COMPETITIVE ENVIRONMENT-

1. **Oligopoly** - small no. of only manufacturers/sellers may join together to forms Monopoly (eg-OPEC) The cooperation among cartels can be in the form of deciding market share, prices, profits. There may be tacit arrangements of cartels, not known to general public.

2. Co-operation can be among organisation producing or dealing in different/unrelated products. It helps in reaching greater no. of customers (eg- McD & Pepsi)

3. **Kieretsu** - Seen in Japan, it is a loosely-coupled group of companies, usually in related industries. Its members are peers, & may own a significant amount of each other’s stock & may have common board members. Its primary purpose is to share purchasing, distributions or other function & not to agree industry standards. In it, members remain independent companies in their own rights.

4. **Family-owned business** - Automatically generated cooperation, as ownership group of enterprise is nothing but a family. The interests of family largely influence the managerial decisions & activities of the enterprise. Similarly, quarrels & conflicts among family (on family matters) may distort management of enterprise. Succession is another conflicting issue.

PORTER’S FIVE FORCES MODEL-

1.1 It is a tool for systematically diagnosing the significant competitive pressures in a market & assessing the strength & importance of each.

- **Threat of New Entrant**-
  - Powerful source of competition
  - New capacity & product range by these throw new competitive pressures
  - The bigger the new entrant, the more severe the competitive effect
  - Also place limit on price & affect profitability of existing players

- **Bargain Power of Customers**-
  - Depends on possibilities of buyers forming cartels
  - Usually, industrial product users come together to exert pressure on producers in matters of price, quality, delivery, etc
  - Besides price, also influence cost & investment of producer as these are required for better services

- **Bargain Power of Suppliers**-
  - The more specialised the offering from supplier, greater is his power
  - If suppliers are limited in no., they stand a still better chance for bargain
  - It determines cost of raw material & other inputs, affecting industry attractiveness & profitability

- **Rival Sellers**-
  - Influence price
  - Influence cost of Competing in industry, Production facilities, Product development, advertising, sales force, etc.

- **Threats from Substitutes**-
  - Latent source of competition
  - Substitutes offering price advantage &/or performance improvement have drastic effect
  - Usually limit the prices & profits in an industry
1.2 BUILD PICTURE OF COMPETITION-

i. Identify specific competitive pressure associated with each force

ii. Evaluate pressure strength of each force (fierce, strong, moderate, normal, weak)

iii. Determine collective strength of all five forces to evaluate the competitive pressure.

ELEMENTS OF MICRO ENVT.-

1. CONSUMERS/CUSTOMERS-
   a. Aim of business is to create & retain customer
   b. Customers- people who pay money to acquire the organisational products(goods/services)
   c. Consumer- who ultimately uses/consumes the product of org.
   d. Customers may or may not be consumers
   e. Closely monitor changes in consumer tastes/preferences & their buying habits

2. COMPETITORS-
   a. Other business entities that compete for resources + markets
   b. They shape business, hence, essential to study
   c. Types-
      i. Direct- orgs. In same business activity
      ii. Indirect- eg: competition b/w resort or car company for available income

3. ORGANISATION-
   a. Nothing is more important than self-analysis
   b. Understand yourself in depth: own strengths & capabilities
   c. Study following-
      i. Owners- these have major stake in company + they have a vested interest in well-being of company (eg- individuals, shareholders, etc.)
      ii. Board of Directors- elected by shareholders to oversee general management of org. so that it serves the shareholder’s interest in best manner
      iii. Employees- people who actually work in org., who may have different beliefs, attitudes, education, yet required to embrace same values & goals as of org. to ensure working of org & employees in same direction.

4. MARKET-
   a. Larger than customers
   b. Study it in terms of actual & potential size, growth prospects & attractiveness
   c. Study the trends, developments & KSFs of market in which org. operates
   d. Eg of factors to be studied w.r.t. market -
      Cost structure, price sensitivity, technological structure, distribution system, maturity

5. SUPPLIERS-
   a. Provider of raw material, equipments, services, etc
   b. Large cos. Rely on hundreds of suppliers to maintain their production
   c. Their bargaining power can affect cost structure of industry
   d. Shapes the competition in the industry

6. INTERMEDIARIES-
   a. Exerts considerable influence on orgs.
   b. Many times consumers are not aware of manufacturer of products they buy
   c. Buyers buy product from local retailers or big departmental stores
   d. Eg- big bazaar, subhiksha, vishal mega mart

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ELEMENTS OF MACRO ENVIRONMENT -

1. DEMOGRAPHIC ENVIRONMENT -
   a. denotes characteristics of population in area, district, country or in world
   b. includes factors such as race, age, income, employment status, educational qualification, etc.
   c. some factors impact businesses greatly but with different magnitudes
   d. challenge is to determine what the changes imply for future strategic competitiveness of company
   e. Some factors of demographic environment -
      i. Population Size -
         Important to companies that require critical mass of potential customers as changes in specific make-up of population’s size may have critical implications. E.g., changes in birth rate, family size, increase or decrease in total population, effect of population growth on natural resources, population growth rate, life expectancy, etc.
      ii. Ethnic Mix -
         Changes in the ethnic make-up of a population & has implications for both company’s potential customers & for the workforce. E.g., of issues to be addressed in case of change in ethnic mix are its impact on product/service design & delivery, demand of either existing products or modification required, etc.
      iii. Income Distribution -
         Changes in purchasing power & discretionary income often result in changes in spending/consumption & saving patterns.
      iv. Geographic Distribution -
         Population shifts from one region to another, from non-metropolitan to metropolitan impacts strategic competitiveness of org. Relocation of org may be influenced by governmental support or population shifts, etc.

2. ECONOMIC ENVIRONMENT -
   a. nature & direction of economy in which org. competes/may compete
   b. include general economic situation of region & nation & conditions in resource markets which influence the supply of inputs to the org, their costs, quality, availability & reliability of supplies.
   c. Key economic factors are (REFER PESTLE)

3. POLITICAL-LEGAL ENVIRONMENT -
   a. partly general to all similar org. & partly specific to an individual org.
   b. Important elements are- 
      i. Government: orgs. Are highly guided & controlled by governmental policies
      ii. Legal: Org. prefer to operate in a country of sound legal system. Orgs. must have good knowledge of major laws protecting consumers, competitions & orgs.
      iii. Political: Political pressure groups influence & limit orgs. by movements against certain products, services & orgs.
   c. Key political-legal factors are (REFER PESTLE)
4. **SOCIO-CULTURAL ENVT.**
   a. Influence almost all orgs. in a similar manner
   b. Consist of factors related to human relationships
   c. Core social beliefs tend to be persistent
   d. Factors include following-
      i. Social concerns (eg-role of business in society, pollution, corruption)
      ii. Social attitudes & values (eg- social customs, beliefs, rituals, practices)
      iii. Family structure & changes in it (attitude towards & within family, family values)
      iv. Role of women/position of children & adolescents in family & society
   v. Education level, awareness, work ethics of members of society

5. **TECHNOLOGICAL ENVT.**
   a. Most important factor controlling & changing people’s life
   b. Leading to many business opportunities + making obsolete many existing systems
   c. Transforms how a business acts & functions
   d. Technology & business are highly interrelated & interdependent
   e. Fruits of technological R&D are available through business
   f. Improves quality of life of society

6. **GLOBAL ENVT.**
   a. Factors to be assessed are –
      i. Potential positive & negative impacts of international events (sports meet, terrorism)
      ii. Identification of both emerging & changing global markets
      iii. Differences b/w cultural & institutional attributes of individual global markets
   b. Need to think & act from global perspective is universal

1. **GLOBALIZATION.**
   - It means several things to several people
   - It is a set of fresh beliefs, working methods, & economic, political & socio-cultural realities in which the previous assumptions are no longer valid.
   - It is a process of integration of the world into a huge market, which calls for removal of all trade barriers among countries (including political & geographical barriers)
   - Explaining above, it means two things-
     • The org. commits itself heavily with several manufacturing locations around the world & offers products in several diversified industries
     • It also means ability to compete in domestic markets with foreign competitors

1.1 **GLOBAL COMPANY**
   1.1.1 **MNCs**
   - MNC is one that by operating in more than one country gains R&D, production, marketing & financial advantages in its costs & reputation that are not available to purely domestic competitors.
   - Characteristics-
     • Conglomerate of multiple units located in different parts of globe, yet linked by common ownership
     • Multiple units draw common pool of resources (eg: money, information, patents)
     • Units respond to common strategy (Eg- Nestle Company)
1.1.2 SUPER-NATIONAL ENTERPRISE
➢ It is a worldwide enterprise chartered by a substantially non-political international body, say, IMF or World Bank
➢ Operates as private business without direct obligations
➢ Functions as international business service for nations which permits its entry
➢ Can serve all nations without being especially attached to anyone of them

1.1.3 WHY GLOBALISATION?
Companies go global for following reasons (Advantages of Globalisation)-
➢ Rapid shrinking of time & distance across globe, thanks to faster communication, speedier transportation, etc.
➢ Domestic markets are no longer adequate & rich
➢ Orgs. that develop attractive new products sell them first in their home markets. Sooner or later, foreigners may learn about these products. At this stage, most orgs. would export their product/service rather than produce it abroad. Eventually, foreign market becomes large enough to justify foreign investment
➢ Due to varying industries. Eg- Petroleum & mining companies to secure reliable or cheaper source of raw material
➢ To reduce high transportation costs. Higher the ratio of per unit cost to selling price per unit, more significant is transportation factor
➢ Orgs. in electronics & communication must spend large R&D for development of new products & thus are compelled to seek ways to improve sales volume to support high overhead expenses. They might look for overseas manufacturing & sales branch for higher sales & better cash flow
➢ Growing role of private sector

1.1.4 HOW GLOBALISATION MANIFESTS (SHOWS) ITSELF-
➢ Configure anywhere in world-
An MNC can locate its different operations in different countries on basis of availability of raw material, low-cost labour, etc.
➢ Interlinked & Interdependent economies-
No nation can lead an isolated existence in which only domestic industries can function. Hence one country’s prosperity is interlinked with rest of world
➢ Lowering of trade & tariff barriers-
Collapse of trade barriers resulting in new global cooperative arrangement. Lowered trade tariffs & custom barriers result in cheaper & abundant supply of goods.
➢ Infrastructural Resources & Inputs at international price-
Advantages of cheap resources evaporate due to inflation & high infrastructure costs. Hence, infrastructural inputs must be ensured at competitive price to compete globally
➢ Increasing Privatisation-
Private entrepreneurs are given greater access & freedom to run business units & Role of government is reduced to provider of infrastructure for private business
➢ Entrepreneur having central economic role-
Given the right environment, businesses are able to innovate & contribute to nation’s wealth. For risk, he takes & efforts he put in, he is awarded with profits. Only cost effective & quality oriented firms can survive & prosper

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- Mobility of skilled resources-
  Modern factories use highly skilled & mobile labour. They also spend vast money to train unskilled workers. Besides labour, other resources are also mobile.
  - Developing country high on land; short on capital invites FDI
  - Developed country high on capital; low on land invests via FDI

- Market-side efficiency-
  Customers can make genuine choice of products & services on basis of maximum value for money. Firms no longer enjoy exclusive markets.

- Formation of Regional Blocks-
  Countries form strategic alliances to ward off economic & technological threats & increase respective competitive advantages. Eg are NAFTA, ASEAN, European Union, SAARC, etc.

**PESTLE ANALYSIS**

Framework for analysis of macro envtl. Factors. If involves identifying Political, Economic, Socio-cultural, Technological, Legal & Envtl. Influences on org. & provides a way to scan envtl. Influences that have or may affect an org. or its policy. PESTLE Matrix is as follows:

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<th>POLITICAL</th>
<th>ECONOMIC</th>
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<tr>
<td>1. Political Stability</td>
<td>1. Economy situation &amp; trends</td>
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<tr>
<td>2. Current &amp; Future Taxation Policy</td>
<td>2. Interest &amp; Exchange rate</td>
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<td>3. Regulatory bodies &amp; processes</td>
<td>3. Inflation &amp; unemployment</td>
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<th>TECHNOLOGICAL</th>
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<td>1. Lifestyle trends</td>
<td>1. Replacement technology/solutions</td>
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<td>2. Consumer attitude/opinion/buying pattern</td>
<td>2. Maturity of technology</td>
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<td>4. Demographics</td>
<td>4. Technology access, licensing, patents</td>
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<td>4. Health &amp; Safety Law</td>
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