
UNIT 1 DIMENSIONS OF BUSINESS ENVIRONMENT

Structure

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1.0 OBJECTIVES

After studying this unit you should be able to

- explain the concept of business environment and its significance;
- identify the components of micro and macro business environment and the levels at which the environment operates;
- describe the emerging scenario of business environment in India and its implications for Indian business; and
- explain the process of environmental scanning for business organisations to identify business opportunities and environmental threats.

1.1 INTRODUCTION

Understanding business environment is very important for any organisation because the nature of business environment is highly dynamic and complex. The environment in which a business operates is full of opportunities as well as threats. An organisation formulates its business strategies in such a way that it is able to capitalise on the available opportunities and protect itself from the threats which the environment may be posing. In this unit you will learn about the nature and significance of business environment and the various components of micro and macro environments. You will also learn about the emerging scenario of business environment in India and the process of scanning the environment so that the knowledge so gained can be used for the formulation of business strategies.

1.2 CONCEPT OF BUSINESS ENVIRONMENT

Business environment may be defined as the total surroundings which have a direct or indirect bearing on the business activities. In this sense, the business environment refers to all the external factors which may influence the functioning of the business. But some experts have used the term business environment in a very broader sense. They are of the opinion that business activities are influenced not only by the external environmental forces but also by the internal environment existing in a business organisation such as the resources at the command of business, the value system, the mission and objectives, etc. that its management has.

The external environment such as economic, socio-cultural, political, technological, ecological, legal and regulatory, etc. in which the business operates gives various kinds of opportunities to the business or may pose threats or challenges to the business. On the other hand, the internal environment in terms of its physical and psychological resources helps the management to cope and adapt to the external environment. Thus, the survival and success of any business depends upon both internal and external environmental factors. However, the term 'business environment' usually refers to the external factors and forces which are outside the control of the firm and vary from country to country.

Business Environment can also be classified as economic and non-economic. The economic environment consists of factors like the fiscal policy, the monetary policy, the industrial policy, the nature of economic system, the pace of economic development, etc. The non-economic environment, on the other hand, refers to socio-cultural, politico-legal, technological and natural factors. It may be noted that economic and non-economic environment can neither be separated nor identified exclusively. Both interact with each other and their treatment in isolation is neither feasible nor of any significance. The economic environment determines the non-economic environment and, at the same time, it is determined by the non-economic environment. For example, the economic condition is affected by sociological factors and the social norms, and values are influenced by the income level of the people. Thus, each critical element of economic environment interacts with each critical element of non-economic environment. The success of any business depends on a proper understanding and its ability to foresee the nature, extent and dimensions of changes likely to occur in both sets of environmental factors and the extent to which the business adapts itself to the likely changes by effecting necessary changes in its strategies.

1.3 SIGNIFICANCE OF BUSINESS ENVIRONMENT

As stated above, business environment refers to surroundings, external objects, influences or circumstances under which the business operates and which influences the business in multiple ways. A proper understanding of business environment helps an organisation to use its sources more effectively and adapt itself to its dynamism in a better way. For proper understanding of business environment, let us acquaint ourselves with the important features of its nature which can be summarised as follows.

- **Business environment is dynamic:** Various factors comprising the business environment continuously keep on changing. Consequently, their impact on the business also keeps on changing. You know that, over period of time, the markets for a number of products have undergone phenomenal changes on account of economic, social and technological advances. The management has to keep track of these developments and effect the necessary changes in its strategies well on time to meet the new challenges.

- **Business environment is complex :** The environment consists of a number of factors, events, conditions and influences which arise from different sources. These factors, events, conditions and influences do not exist in isolation but interact with each other to create a new set of influences. It is relatively easy to understand individual factors of environment but it is rather difficult to grasp the effect in its totality because of the mixed and conflicting responses required by various factors.
- **Business environment is multifaceted :** The nature of business environment also depends upon the perception of the observer. A particular change in the environment may be perceived as an opportunity by some while it may be perceived as a threat by the others. As such the business environment is also multifaceted in nature.
- **Business environment has a far reaching impact :** The environmental changes have a far reaching impact on the survival, continuity and growth of the business. Any environmental change may affect the demand for products and services of the business and thereby its profitability.

Since the nature of business environment is dynamic, complex, and multifaceted, and has far reaching impact on its survival, continuity, and growth, it is extremely important for every business organisation to understand and continuously monitor its environment. This shall enable the business strategists to adapt itself to the changes and make best use of its internal resources at a given point of time. It is these changes - actual or potential – in the environment that provide the necessary inputs for strategic decision-making. Mere monitoring of the environment is not enough. The information thus collected must be used for future planning and building up the appropriate strategies at various levels.

The importance of understanding the business environment can be summarised as follows:

- 1 Continuous environmental scanning helps in visualising the impact of the socio-economic and politico-legal changes at the national and international levels on its business and take timely corrective steps.
- 2 It helps in identifying the opportunities for, and threats to, the business.
- 3 It helps in identifying firm's strengths and weaknesses in view of the technological and global developments.
- 4 It helps in evaluating the present strategies, formulating long-term policies, and developing future strategies.
- 5 It enables the firm to analyse competitors' strategies and formulate the necessary counter strategies.
- 6 Lastly, it helps the firm to adapt to the prevailing conditions and, sometimes, even influence the environment in order to make it congenial to the business.

Check Your Progress A

- 1 What do you mean by business environment ?

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- 2 Distinguish between economic and non-economic environments.
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- 3 Why do you regard business environment as multifaceted ?
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1.4 TYPES OF BUSINESS ENVIRONMENT

As stated earlier, the overall business environment is of two types, viz., internal environment and external environment. Let us now understand them more clearly.

Internal Environment : There are a number of internal environmental factors that influence the strategic decisions in a business. Some of these factors are :

- Value system and ethical standards which the organisation has adopted;
- Mission, goals and objectives of the companies as they determine the priorities, direction of development, philosophy, etc. of the business;
- Organisational structure determining the extent of professionalisation of management, characteristics of available human resources like skill, morale, commitments, attitudes, etc.;
- Physical assets and facilities like nature of available technology, production capacity, hold on distribution logistics, which has a direct bearing on marketing efficiency;
- Financial factors such as financial position, composition of funds, sources of funds, capital structure, financial policies, etc. of the company; and
- Corporate image and brand equity which the company has created over the years.

These internal sources of a company determine the degree of strength or weakness which a company has. Every company is supposed to make an efficient use of these sources to adapt its strategies to the external environment within which it operates.

External Environment : The external environment encompasses a variety of factors which are largely beyond the control of individual firms and which may provide opportunities and / or pose threats to an organisation. These factors happen to be economic, demographic, political, legal, socio-cultural, technological and natural. They constitute the real business environment which provide the opportunities and/or pose threats to an organisation.

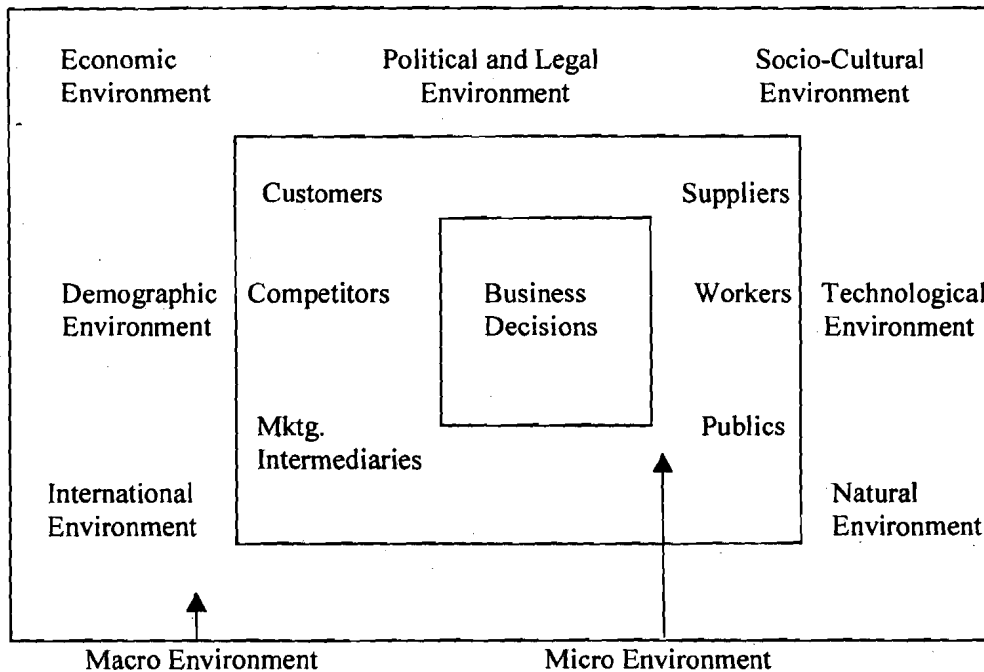
1.5 COMPONENTS OF EXTERNAL ENVIRONMENT

The External environment can be broadly classified into micro environment and a macro environment. The micro environment refers to the environmental forces which are in the immediate contact of the business such as customers, competitors, marketing intermediaries, suppliers, workers and the publics. Macro environment,

on the other hand, are the larger societal or physical forces which may have an impact not only on the business but also on its micro environmental players. These are economic, politico-legal, socio-cultural, demographic, technological, international and natural forces.

The impact of micro environmental players normally varies from firm to firm even if they belong to the same industry. But, the impact of macro environmental players is more or less uniform on all the business firms operating in an industry. Figure 1.1 depicts the impact of environmental forces, both micro and macro, on business decisions.

Figure 1.1 : Environmental Forces



1.5.1 Micro Environment

The impact of various components of micro environment can be summarised as follows :

Customers

Customers hold the key to the success of a business. Therefore understanding customers and monitoring their changing tastes and preferences is very important for every business. The loyalty of customers towards a product or service depends mainly upon their degree of satisfaction. In order to create and sustain customers, the management has to set up systems for monitoring customers' attitudes, behaviour and satisfaction on continuing basis.

A business usually has different categories of customers like individuals, households, business firms, government and other institutions. They may be situated locally, regionally, at national level or even globally. From business firm's point of view, it is often too risky to depend on a single customer. It has to identify various groups or segments of customers whom it wishes to serve and has to strive continuously to expand its customer base. A slight laxity on the part of the firm may lead to switching over of customers to its competitors.

Competitors

No business firm, howsoever large it may be, enjoys monopoly in real market situation. It is always facing some kind of competition. A firm's competitors include not only the other firms which are in the same kind of business but also the firms belonging to other industries which are competing for a claim on the discretionary income of the customers. For example Samsung TV is not only competing with other brands of televisions in the market but it is also competing with other firms manufacturing products such as two wheelers, refrigerators, music systems, cooking ranges, etc. because the customers with discretionary income may settle for any of these products as the discretionary income available with the customers may be limited and desire to purchase products unlimited. This kind of competition is known as desire competition since primary task of the business firm here is to influence the basic desire of the customer.

If the customer finally decides to buy a television then the next question would be which television – black and white or colour; small, medium or large size; with or without remote control; fully flat screen or otherwise; which make and design of television; etc. Such type of competition is known as brand competition.

Even if where a business firm finds a direct competition with the other business firms within the same industry, the competition may either be price competition or a non-price competition. In case of non-price competition the business firms advertise or promote their product highlighting product variations and other qualities or features of their products. Every business firm must understand the nature of competition it faces in the overall competitive structure of the industry.

Marketing Intermediaries

Marketing intermediaries are the channel members (middlemen) which help the business firm to take its product to the final buyer. Most companies find it too difficult to reach the final buyer on their own as they do not have the requisite network to distribute their products. The intermediaries such as wholesalers, retailers, distribution firms, agents, etc. perform various kinds of functions to assist the business firm in promoting, selling and distributing its goods to the final buyers. These intermediaries help the firm to find customers and close sales with them, they also assist firms in moving goods from production point to the consumption point, they also finance some of the marketing activities and insure business risks.

The success of any business firm also depends upon the quality of relationship which it has with its channel members or marketing intermediaries. Usually a firm lacking in its own distribution network cannot afford to have conflict or strained relationship with the wholesalers or retailers. Many companies are now looking for innovative ways to directly reach its customers but this, in no way, has undermined the role of the marketing intermediaries.

Suppliers

Suppliers are those who provide various kind of inputs such as raw materials, fabricated parts, etc. Every firm strives to operate at a low cost of a production for which it has to ensure uninterrupted supply of inputs. Any uncertainty in the supply of inputs will require the firm to maintain a high level of inventories which may lead to increase in the cost of production. In some cases, the firms have gone for backward integration, i.e., entering into the business of suppliers. Reliance

industries, for example, has done this in India. From textile manufacturing it entered into the business of yarn manufacturing. In most cases, however, the firms may still find outsourcing more beneficial, and in the periods of scarcity and input shortages, supply management has to be the main priority of the company.

Workers and Unions

The relationship which a business firm has built up with its workers is of crucial importance for its success. The labour management practices operating in any organization would determine the quality of relationship which a business firm has with its workers. If the workers are unorganised, the bargaining position of the company vis-à-vis workers would be strong and it may succeed in forcing workers to accept whatever it provides for them. But if the workers are organised and have strong unions, they would invariably resort to collective bargaining and would be less vulnerable to the exploitation of the management. However, some enlightened managements consider workers as copartners and are willing to share the profits of the company with its workers. Such companies would find workers to have more sense of belongingness for the organizations which will help them collectively to attain their growth oriented goals. The maintenance of industrial peace is beneficial to both workers and the business firms.

Publics

In the common parlance, the word, 'publics', refers to the people in general. Every company encounters certain publics in its environment. According to Philip Kotler, an expert in marketing management, "A public is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives." Thus publics are various interest groups which have or may have an interest in the functioning of the business such as environmentalists, media groups, consumer protection groups, local lobbyists, etc. These groups may sometimes pose a serious threat to companies.

Environmentalists have now taken up the cause of pollution control, maintenance of ecological balance and environment protection. They have taken up these issues with the government and have also gone to the courts with the public interest litigations. The action of these environmentalists have now compelled some air and water polluting industries to shift to locations away from the residential colonies of the cities. Many non government organizations (NGOs) have also been mounting up protests against child labour, cruelty against animals, environmental problems and many other social causes. It may be noted that such groups are not always a threat to the business. Some publics offer an opportunity for the business. For example, media is a big help in disseminating knowledge and information about new products and new uses of the existing products. A firm has to look out for ways and means to ensure cooperation from the local publics which may be of mutual benefit to the company as well as the local community.

1.5.2 Macro Environment

A business firm and the forces in its micro environment operate in a larger macro environment which provides opportunities and/ or poses threats to the firm. The macro forces are generally more uncontrollable than the micro environmental forces; and the success of a business firm, to a large extent, depends on its ability to adapt itself to the dynamic, complex and multifaceted environment which has far reaching consequences for the firm. The important components of macro environment can be summarised as follows.

Economic Environment

Economic environment basically consists of the economic conditions such as the nature of the economy, economic resources, level of income, distribution of income and wealth, stage of economic development, etc., and the economic system and policies which the country follows. Thus, the important forces operating in the economic environment are:

- the stage of economic development through which a country is passing at a given point of time;
- the economic system which a country has adopted such as capitalism, socialism, or a mixed economy;
- the nature of economic policies which the country has adopted such as industrial policy, monetary and fiscal policies;
- the type of economic planning such as centralised or decentralized planning, perspective or long term plans, five year plans, annual plans or budgets, etc.;
- the nature of infrastructure available in the country such as means of transportation, communication network, banking and financial institutions, power supply, insurance, etc.; and
- the important economic indices such as national income, per capita income, rate of growth of Gross National Product, distribution of income, rate of savings and investments, rate of growth of imports and exports, balance of trade, balance of payments, poverty rates, etc.

All these factors have a bearing on the strategies adopted by the firms, and any movements in these forces is likely to have far reaching impact on their operations. For example, if there is an economic slowdown it has a direct impact on consumer spending which gets reduced and affects the demand for goods and services adversely. The policies of Liberalisation, Privatisation, and Globalisation adopted in the country has resulted in greater participation from the private sector and foreign companies which has completely changed the competitive structure of business and industry much to the benefit of the consumers.

Political and Legal Environment

Political system and ideology of the political parties exert a lot of influence in determining the course of action which the business enterprises may adopt. Dimock observes, "the two most powerful institutions in society today are business and government; where they meet on common ground-amicably or otherwise – together and determine public policy, both foreign and domestic for a nation."

In every country irrespective of the nature of the economic system, the government plays an active role as planner, regulator, and promoter of economic activity. Only the extent and nature of these roles varies from system to system. In a capitalist economic system business corporates are very powerful, yet they have to operate within the parameters which are determined by the board policies of the government. The ideology of the government also shapes the political environment of the country. For example, India deliberately opted for mixed economic system after it became independent. It still continues to be a mixed economy but its nature has undergone a drastic change. In the first three decades of its planning the mixed economy had a tilt towards socialism but now it is increasingly moving towards a market driven economy where free competitive forces play an active role.

The nature of political stability has a lots of influence on the economic activities and willingness of the business to participate in the economy. An unstable government is likely to shift stances and make frequent changes in the policies because of political compulsions which may dampen the enthusiasm of business enterprises of greater participation in the economy.

The government also sets the legal and regulatory framework within which the business operates. The constitutional framework provides Directive Principles of State Policy, Fundamental Rights and division of legislative powers between the central and the state governments. Legislations such as Contracts Act, Companies Act, Industries (Development & Regulation) Act, Foreign Exchange Management Act, Securities Exchange Board of India Act, the various labour laws and host of other legislations jointly create the framework of legal environment in the country. Through these enactments, the activities of the business enterprises are regulated at each stage of their working.

The economic legislations which the government frames, or amends from time to time, aim at implementing various economic policies formulated by the government such as policies relating to licensing, monopolies, foreign investment, distribution and pricing, control of environmental pollution, development of backward areas, import and export, public sector, small scale industries, etc. At times, the business also tries to influence the government through lobbying or creating public awareness or by forcing parliamentary debates to create a favourable policy framework to the benefit of business community. Federation of Indian Chambers of Commerce and Industry (FICCI), Confederation of Indian Industry(CII) and host of other organisations which represent the interest of business are actively engaged in such lobbying activities.

Socio-Cultural Environment

The social structure and the culture of a society has a great influence on the functioning of its business activities. Each society has its own culture which consists of the customs, values, attitudes, beliefs, habits, languages and other forms of interaction between members of the society. Any business firm which aims at entering any markets for its products and services has to be extremely careful about the cultural sensitivities of the society involved.

The social system can also be influenced by the way the business functions. The innovations which take place in business, the transmission of information and diffusion of information about new ideas etc. may also bring socio-cultural changes in the society. However, it is very difficult and, in some cases, almost impossible to change various elements in the social environment in the short run. Culture of a society changes only gradually and the firms cannot afford to ignore this reality otherwise they may run the risk of a cold response from the targeted users of the products. Hence, the business must adapt to the largely uncontrollable socio-cultural environment.

The consumption patterns, the dressing and living styles of the people belonging to different social structures and cultures vary significantly. The perception of role of women in society also varies significantly in different societies. All these aspects must be considered by the business organisations not only while designing the products but also while finalising its advertising and other promotional mechanisms.

Consumerism which aims at augmenting the rights of consumers in relation to sellers is also a very important social movement. It exercises a considerable influence on socio-economic environment of business. The state at which the consumers movement prevails affects the marketing policies of the firm.

Demographic Environment

Demographic features deal with the size and composition of population. Normally the absolute size of the population in a country is an important factor determining the size of the domestic market. But the real size of any market is determined on the basis of nature of composition of population. Therefore demographic factors, such as

size and growth rate of population, life expectancy, age composition, sex composition, ethnic composition, rural-urban distribution of population, income distinction levels, educational levels, family size, family life cycle, occupation, religion, nationality etc. are all relevant to business. Demographic environment differs from country to country and also from place to place within the same country or region.

A complete understanding of the demographic features of the society helps the firms in designing their business strategies properly. A country where the population growth rate is high, children constitute a large section of population resulting in more demand for baby products. Whereas, in countries having low population growth rate with higher life expectancy, and the elderly people constitute the larger section of population, the nature of demand for products and the consumption pattern is going to be very different. Similarly, the increase in the size of population with middle and high income groups shall result in an increased demand for consumer goods both durable and non-durable as in case of India where the demand for products like automobiles, branded ready-made garments, electronic products, home appliances etc. has increased manifold. A business firm which reads the demographic changes accurately and monitors it continuously will find opportunities knocking at its doorsteps.

Technological Environment

Technological environment consists of all those factors which are related to the knowledge about machines and processes used in the production of goods and services. The varying technological environment of different countries affect the designing of products. For example, in USA and several other countries the electrical appliances and instruments are designed for 110 volts. But when these are meant for India, they are made for 220 volts. Similarly, the technological development may create demand for several new products. In fact, keeping up with the tempo of technological change is a major concern of the business executives all over the world.

No country, and for that matter, no business firm can afford to persist with the outdated technology. The overall scenario of business operations has undergone a tremendous change all over the world due to fast track developments in information technology, computer technology and the communication sector. Because of these developments, the whole world has now shrunk in size and is considered to be a "Global Village." Now you can talk to anyone anywhere in the world with a click of button. Everyone now has an access to information about the developments taking place in any corner of the world. With the internet and cable TV it is possible now for the buyers in India to know what people in other countries are consuming or using. These technological developments have taken place not only in the manufacturing sector but also very significantly in the service sector. For example, with the high quality financial and banking services provided by foreign and private sector banks, the public sector banks in India have started feeling the heat of competition and have resorted to computerisation and automation in a big way in order to ensure that they are able to provide world class financial services to their customers and succeed in retaining them. The industrial units which lag behind the other countries in technological changes will lose competitiveness in national as well as international market.

International Environment

International environment comprises all those factors - economic, political, technological, sociological etc. that operate at transnational, cross-cultural and across the border level which also have an impact on the business operations of an enterprise. The developments which take place at the global level determines the course of change in the international environment. With the collapse of Eastern

Europe and USSR, the USA has established its supremacy all over the world. At the global scenario, the world has become a Unipolar World. The way USA has invaded Iraq in 2003 has clearly demonstrated its hegemony.

The factors such as the process of globalisation and the pace at which it is taking place, formation of regional trading blocks like EU (European Union), OECD (Organisation of Economic Cooperation and Development), ASEAN (Association of South East Asian Nations) etc., trends in global trade, demographic patterns and shifts taking place at global level, global financial systems, technological developments at global level, global markets, global legal systems, and host of other factors determine the nature of global business opportunities or threats which the international environment provides.

The setting up of WTO (World Trade Organisation) on January 1, 1995 has created new kind of international environment where the focus is on providing opportunities of trade without any kind of discrimination, increased market access by removing all tariff and non-tariff barriers, promotion of fair competition, and provision of legal system for redressal of trade related grievances. India is also one of the founder members of WTO and the impact of various agreements of WTO on Indian economy is still being debated within the country.

Natural Environment

Business is also affected by the quality of natural environment in a particular country. There are some businesses which can be established only at a source where raw material is available. For example, a sugar industry is possible only at those places where sugarcane can be grown because of suitable climatic and soil conditions. The industries which get raw material and inputs from the natural resources can similarly be also established near the source of availability of inputs otherwise increased transportation cost of raw materials and inputs will make the industrial unit uncompetitive.

Another dimension of natural environment is the ecology. In the past, the industry has given scant regard to the ecological and environmental issue. It degraded the environment by contaminating water and polluting air, and disturbed the ecological balance by way of indiscriminate cutting of forests and exhausting mineral resources. Such adverse effects were being overlooked by the governments as well as by the people in the past. But now there is high degree of consciousness among the government as well as the society to protect the natural environment and maintain the ecological balance. Business, therefore, has become more aware of its natural environment and is engaged in recycling of products, development of new technologies where the further damage to the environment could at least be stopped.

Check Your Progress B

- 1 Enumerate the internal environmental factors.

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- 2 State whether the following statements are True or False.

- (a) Micro environment forces are in the immediate contact of the business.
- (b) The impact of macro environmental forces varies from firm to firm even if they belong to the same industry.
- (c) Marketing intermediaries constitute an integral part of macro environment.

- (d) Demographic environment differs from country to country and from place to place within the same country.
- (e) The business firms exercise little influence on the government in building up the regulatory framework for the business.
- (f) While entering any new market, a firm must fully take into account the cultural sensitivities of the society involved.

3 What do you mean by international environment ?

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1.6 EMERGING SCENARIO OF BUSINESS ENVIRONMENT IN INDIA

The scenario of business environment in India is changing at a fast speed. Some of these changes are caused by the developments taking place within India and some have been influenced because of certain global developments. Some of the important features of emerging scenario of business environment in India have been discussed hereunder.

Political Uncertainty

India is considered to be one of the largest democracy in the world and its democratic system seems not only to have survived since independence but has actually strengthened over the years. However, at present, there is a lot of political instability. There have been coalition governments at the Centre for the last few years and the trend is likely to continue in the near future also. The coalition governments because of their political compulsions, are likely to follow ad-hoc economic policies lacking any kind of long term perspective and vision. In order to remain in power, these coalition governments have to make many adjustments in their economic policies owing to pressures from their coalition partners which has had a negative impact on the overall business environment of the country. One of the reasons for economic slowdown in India is its continuing political instability. It has slowed down the pace of economic reforms which is having an adverse impact on the flow of direct foreign investment and technology in the country.

Globalisation

Globalisation in Indian context means integration of Indian economy into the global economy. Since July 1991, the process of globalisation was initiated by implementing economic reforms in the country in a big way. There are several ways through which globalisation can be achieved such as encouraging the inflow of foreign direct investment and technology, opening up the system of trade (both in goods and in services), and internationalising markets and corporations in general.

With India becoming the founder member of WTO in 1995, the scenario of trade and investment, both domestic and international, has considerably changed. Various clauses of WTO agreements are being implemented in a phased manner strictly in accordance with the parameters of the agreements. The major response of the Indian government to WTO agreements has been to reduce the tariffs in a big way. Indian markets have been opened up to global player and, consequently, many multinational corporations (MNCs) have entered the Indian market. Internal subsidies are being reduced in a gradual manner. The procedures are being streamlined and rationalised for smooth two-way flow of goods, services and investments.

These measures adopted for globalisation had a mixed impact on Indian companies. Those who managed their affairs efficiently not only survived but became global players. For example, Ranbaxy an Indian pharmaceutical company is now the first Indian multinational company in the pharmaceutical sector. Reliance Industries has also got its business interests in many countries and thus qualifies to be a multinational corporation. But, on the other, the onslaught of multinationals has wiped out many inefficient Indian companies out of the scene. Indian companies are also making strategic moves to enter into joint ventures with MNC's so as to gain global size and take advantage of situation. Mergers and acquisitions are also taking place in a big way which is shaking out the minor players from the market. The effects of globalization are still being hotly debated in the country by the people belonging to different schools of thought who have formed pro and anti globalisation lobbies. The process of globalisation has also resulted in bringing tremendous improvement in the overall infrastructure available in the country.

Economic Liberalisation

The Indian economy has been a highly regulated and controlled economy since independence. This is evident from the first Industrial Policy Resolution which was adopted in April 1948. The government took the responsibility of developing basic and key industries under its ownership and management in the public sector. Other important industries were allowed to be developed in the private sector but under the strict control and regulation of the government. This gave rise to the "License and Permit Raj" in the country. Thereafter, the Industrial Policy Resolution of 1956 which was regarded as the Economic Constitution of India further expanded the role of public sector and put the whole of the private sector under the regulation and control of the government. At the beginning of 1970s the regulatory framework for the private sector further tightened with the enactment of MRTP Act 1969 (Monopolies and Restrictive Trade Practices Act) and New Licensing Policy of 1970.

By the end of the Seventh Five Year Plan in 1990, the economic situation in the country was in shambles. P.V. Narsimha Rao's government initiated the process of bringing economic reforms in the country with the announcement of Industrial Policy Resolution on July 24, 1991. The major policy changes included the reduction in the role of public sector, expansion of the private sector, opening-up the economy for increasing the flow of foreign investment and technology, doing away with some of the major government regulations and control, and streamlining the relevant policies and procedures. The focus of the policies of the government shifted from regulations and controls to that of increased liberalisation by allowing greater participation of private sector and foreign companies. The reforms were not restricted to the industrial sector but extended to almost all the areas of economy such as reforms in the area of financial sector, banking sector and trade reforms. MRTP Act which had restricted the growth of private sector and foreign companies was amended so that pre-entry approval from the government was no longer required for capacity creation, mergers, amalgamations or acquisitions on the part of such companies. Industrial Licensing was abolished but for a small list of essential industries. Capital Issues (Control) Act 1947 was abolished and replaced by more liberal SEBI Act (Securities Exchange Board of India Act).

All these reforms have given a big boost to the economy. The economy which was characterized as an economy of scarcities suddenly became vibrant and started showing signs of buoyancy with increased competition and more active play of market forces. The economy where the buzzword was nationalisation of private sector suddenly resorted to privatisation of public sector undertakings by way of disinvestments or by other means.

Technological Revolution

The technological developments taking place all over the world have not bypassed India. The prominent sectors where world class technology is available in India are the areas of Information Technology, Communications and Computerisation. There has been a phenomenal increase in the number of mobile phone users in the country. The automobile sector has also witnessed a boom with production bases setup in India by almost all major players in the international automobile industry. The lifting of restrictions on the inflow of technology had a positive impact on almost all the industrial sectors of the economy. One of the most important beneficiary of this technological revolution in India is the consumer who now has an access to a large variety of products and services of international quality at very competitive prices. Technological revolution has also opened up opportunities for new types of businesses, particularly in the service industry. Gurgaon is emerging as a global capital for 'Call Centers' for almost all major MNCs in the world.

Outsourcing

The size of companies is expanding at a fast rate and they are engaged in diversified activities. The recent trend in case of a large number of business corporates is to rely on outsourcing. The firms tend to focus exclusively on the areas where they have established their competence and the portions of value chain activities are commissioned to external suppliers on the basis of economics of the situation. Outsourcing is a variant of make or buy concept. In a manufacturing industry, the firms relying on outsourcing create captive supply sources by providing a part of the manufacturing requirements such as design and blue prints, and raw material to the subcontractors, who then make the parts and supply to the firm. The outsourcing is resorted to at the global level by the MNCs. India is also a destination for outsourcing of many MNCs because of the availability of cheap labour and fairly developed infrastructure in the country.

Emerging Rural Market

Rural markets are gaining importance in the marketing planning exercise of many leading consumer goods manufacturers. Rural markets are tomorrow's markets and increasingly large number of companies are today turning to expand the scope of their business operations. Let us examine the reasons of growing interest of business enterprises in the rural markets in India.

Urban markets are now becoming increasingly competitive and perhaps are even getting saturated for many products. In such a situation, the growth oriented firms are exploring new markets for their existing products. Rural markets are the new markets which are opening up for most of these goods. Companies like Hindustan Levers, Brook Bond, Lipton, Colgate Palmolive, etc. have since long realised the potential that existed for their products in rural areas and had gone out to penetrate rural markets. These companies developed products and their packages specially to cater to the needs of rural customers. They expanded their distribution network and even employed cycle salesmen, who could go out in rural areas and motivate rural buyers to use the products. Rural markets are today offering growth opportunities to the firms who have attained saturation in their sales in urban markets because of intensive competition.

The growth of rural markets can also be attributed to the socio-economic changes sweeping the rural areas in a big way. The productivity of the farm sector has increased substantially with the application of modern technology. The yield per acre of land and per animal has also increased following green revolution and white revolution respectively. The efforts of the government through the Integrated Rural Development Programs have brought about improvements in education, health,

modern farming practices and cooperative marketing which have emerged as pillars of rural development. These efforts have also resulted in the development of village industry and craft. All these changes have resulted in more income, higher aspiration and changing lifestyles in rural India.

The process of social change in the rural sector has also been fuelled by the reach of television and radio in these areas which covers more than 90% of the Indian population. The cable TV, Doordarshan and video culture has brought complete social transformation in the rural India. Another major technology that has influenced a socio-economic change in the rural sector is the Gobar Gas Project. This project recycles the animal and human waste into a fuel which is piped to the households and used as cooking gas and for electrification purposes. Now the women folk need not spend several hours in search of fuel for cooking food for the family. This has given more leisure time to the rural women which they can spend with their family members and can use it to supplement their household income.

Stakeholders' Expectations

The stakeholders are the various sections of the society which have an interest in the business and are influenced by the actions of business. These are customers, employees, suppliers, share holders, investors, local community and society at large. The expectations of these stakeholders have reached a situation where the question of responsibility of business to the community can no longer be scoffed at or taken lightly. The test of social responsiveness of the business is that whether it is coming up-to the expectations of the society and is fulfilling the needs of the community. The expectations of the stakeholders are divergent and at times in conflict with each other. This implies that the claims of various interests will have to be balanced, not on the narrow ground of what is best for the shareholders alone but from the point of view of what is best for the community at large.

1.7 ENVIRONMENTAL SCANNING

You have learnt that the business environment encompasses a variety of factors like economic, socio-cultural, political, legal, natural, international, technological and many others operating at micro as well as macro levels. But the immediate concern of business is to identify that part of the environment which is of strategic relevance to it. This part of environment is called relevant environment. Every organisation must closely and thoroughly monitor its relevant environment. The process by which the organisations monitor their relevant environment to identify the opportunities that could benefit them and the threats that should be avoided is known as environmental scanning, analysis or appraisal. The whole process consists of tracing the source of any opportunity or threat and break the whole into parts so as to examine its nature and inter-relationship. It is from such analysis that the management is in a position to decide whether to react to, ignore, or try to influence, or anticipate future opportunities and threats discovered.

1.7.1 Need for Environmental Scanning

We know that the environment is dynamic, complex, multifaceted, and has far reaching impact on the business. It is precisely for this reason that the environment has to be monitored and scanned continuously. The organisations must be able to anticipate the unknown and uncertain environmental changes so that they are able to utilize the opportunities to grow and respond to the challenges and threats. Their future depends upon how innovative they are and how well they manage the change. The business scenario is highly competitive and no organisation can afford to miss opportunities which environmental changes are providing for the simple reason that the organisations which are efficient will grab such business opportunities and drive the inefficient and non-performing business organisations out of competition. It is

abundantly clear that to assess future is a difficult task and all the eventualities are still difficult to be anticipated. But, to some extent, future trends can be predicted with a systematic scanning of the environment.

Environmental scanning is aimed at identifying key variables that offer actionable responses. The organisations should be able to respond either offensively or defensively to these key factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats. Environmental scanning is thus the fundamental step in the Strategic Management Process.

The main advantage of the environmental scanning is that the strategic decision makers are in a better position to narrow down the range of available alternatives and eliminate those options which are inconsistent with the forecasted opportunities. It may not be very easy to identify the best strategy. But environmental scanning helps in eliminating all those options which are not promising alternatives.

The process of environmental scanning thus should achieve following three goals:

- The scanning should provide a complete understanding of current and potential changes taking place in the environment.
- It should provide inputs for strategic decision making. Mere collection of information or data is not enough. The information collected must be used for strategic decision making.
- It should facilitate and foster strategic thinking in the organisation. It should challenge the current wisdom by bringing fresh viewpoints into the organisation.

1.7.2 Characteristics of Environmental Scanning

As already stated the nature of the business environment is dynamic, complex, multifaceted and has far reaching impact. Its scanning comprises information processing and forecasting of social, economic, political and even international conditions, besides technological and market conditions. This provides a broader perspective to corporate planners in formulating plans and strategies. The process of environmental scanning, therefore, must have the following characteristics.

- Environmental scanning being a holistic exercise, must take a total view of the environment rather than making piecemeal analysis of various trends and components of the environment.
- Environmental scanning must be a continuous process because the nature of business environment itself is dynamic. Any intermittent scanning system will not yield desired results.
- Environmental scanning is a heuristic or exploratory process. It seeks to explore the unknown and uncertain terrain and various dimensions of what could possibly happen in future. Your predictions of what can happen are not necessarily going to be translated into what will happen. Therefore, the emphasis must be on alternative futures, seeking classifications on the assumptions about the future, speculating systematically about alternative courses of action, assessing probabilities and drawing more rational conclusions.

1.7.3 Approaches to Environmental Scanning

The approaches to the environmental scanning may range from informal assessment of environmental factors which may be adopted as a reactive measure to a crisis or ad-hoc studies undertaken occasionally to a highly systematic and formal procedure used as a proactive measure for anticipation of changes in factors on continuing basis. As such, there are three approaches which could be adopted for the purpose of environmental scanning : (1) Systematic approach, (2) Adhoc approach, and (3) Processed form approach. These are discussed hereunder.

Systematic Approach : Systematic approach involves development and implementation of such a system which will ensure scientific and continuous collection of information for environmental scanning. Information relating to various factors of environment which are relevant to the organisation's business and industry are continuously collected to monitor changes occurring in them. Information related to customers, markets, changes in government policy, rules, regulations and legislations etc. needs continuous updating not only for strategic management but also for the performance of operational activities.

Ad-hoc Approach : This approach involves conduct of special surveys and studies to deal with specific environmental issues from time to time. Under this approach, the organization may take up a specific project for scanning whenever it needs to evaluate its existing strategy or desire a new strategy.

Processed form Approach : Under this approach the organisation uses information in a processed form which may be available from various sources both inside and outside the organisation. The information in processed form is usually supplied by government agencies or private institutions engaged in the compilation and processing of such information.

Since environment scanning is absolutely necessary for strategy formulation the organisations make use of different approaches or combination of different approaches to environment scanning for the purpose of monitoring relevant environment. The use of a particular approach may be situational. Whatever approach is adopted by the organisation for environmental scanning, data collection is necessary for deriving information about environmental factors.

1.7.4 Process of Environmental Scanning

The process of environmental scanning involves performance of the following steps in a sequential manner.

Identification of key environmental variables : The first step in environmental scanning involves identification of key environmental variables which have an impact on the organisation's business and industry. These environmental variables comprises both micro and macro environment of business. The organisation requires to identify those variables which are relevant and also the variables which are general in nature. The key environmental variables can be customer related, competition or market related, technology related, regulatory framework related etc.

Identification of sources of information for environmental Scanning : Environmental scanning requires information input which can be derived from different sources. These could be formal and informal sources. These could be written as well as verbal sources. The origin of the sources of data could be internal as well as external. Some of the important types of sources of information are:

- Internal sources such as company files and documents, data base generated by management information systems, company employees, and so on.
- Secondary sources of information such as government publications, newspapers, journals, magazines, trade and industry associations newsletters, annual reports of competing firms, etc.
- Mass media such as radio, television, internet.
- Formal studies conducted by external agencies such as marketing research agencies, consultants and educational institutions.
- Spying and surveillance through industrial espionage agencies or through ex-employees of the competitors or by planting own persons in the rival companies.

Approaches of environmental scanning : The organisation may adopt either systematic approach or ad-hoc approach or processed form approach or combination of these approaches in varying degrees depending upon the need of situation.

Techniques of environmental scanning : There is a wide range of techniques available for environmental scanning. There are quantitative as well as qualitative techniques. There are formal and systematic techniques as well as intuitive methods available with the strategist. Any of these techniques may be selected depending upon the need and cost involved.

Various authors have identified different methods and techniques of environmental scanning. Some of these techniques are: Scenario writing, simulation, morphological analysis, structured and unstructured expert opinion, dynamic modeling, single variable extrapolation, multivariable interaction analysis, cross impact analysis and a number of other forecasting techniques. While many of these techniques are based on statistical methods but some of the techniques are based on intuition and judgment of the strategist to predict what the future is likely to be.

Factors affecting environmental scanning : There are several factors which affect environmental scanning. These factors are events, trends, issues and expectations of different groups which have interest in the organisation or its stakeholders. **Events** are important and specific occurrences taking place in different environmental sectors. **Trends** are the general tendencies or courses along which events take place. **Issues** are the current concerns of various sections of the society which arise in response to events and trends. **Expectations** are the demands which are made by various interest groups in response to their concern for the issues which have emerged.

The identification of important environmental factors becomes easier if each factor is tested with regard to its impact on the business of the organisation and probability of such an impact. Figure 1.2 provides a matrix which can help a strategist to identify high priority environmental factors. The priority of these factors could be judged on the basis of the intensity of their impact on the business of an organisation and the relative probability of such an impact. In this way, all the environmental factors can be classified among the nine cells of the matrix.

Figure 1.2 : Matrix Indicating Priority of Environmental Issues

		Impact on Business		
		High	Medium	Low
Probability of Impact	High	Critical	High Priority	Low Priority
	Medium	High Priority	High Priority	Low Priority
	Low	To be Watched	Low Priority	Low Priority

Source: Adapted from William R. Boulton, Business Policy: The Art of Strategic Management, Macmillan Publishing Co., New York, 1984, p.120.

The issues which are likely to have high level of impact on the business of the organisation are critical issues and these must attract immediate attention of the strategists. Similarly, high priority issues have a medium to high probability of impact. The issues having high impact on business but a low probability of impact need to be watched. Remaining issues being of low priority also need to be continuously monitored as the conditions may change at later stage.



Preparation of Environmental Threat and Opportunity Profile-ETOP : The last step in the process of environmental scanning is to structure the environmental appraisal in such a way that the environmental issues identified in the earlier steps are classified into opportunities and threats. This needs to be done in a systematic manner. William F. Glueck has suggested a technique called preparation of Environmental Threat and Opportunity Profile(ETOP) for an organisation. The preparation of ETOP requires overall environment to be divided into various sectors and then the impact of each sector on the organisation duly analysed. Such ETOP provides the strategists a clear picture about the sectors which have favourable impact on the organisation and also the sectors having unfavourable or no impact on the organisation. This understanding can be of great help to an organisation in the formulation of appropriate strategies whereby it can take the advantages of the opportunities available and counter the threats posed by the environment. Figure 1.3 presents an ETOP of a car manufacturing firm.

Figure 1.3 : Environmental Threat and Opportunity Profile for a car manufacturer

Environmental Sector	Nature of Impact	Impact of each Sector
Market	↑	Automobile industry is growing at a rate of 12% per annum. Rate of growth of premium cars in the luxury segment is 15%. Sports car segment is untapped.
Technological	↑	Very fast technological developments in the industry. Import of technology and machinery is easy.
Economic	↑	A very high rate of growth in the upper income group and expanding base of middle income group families.
Regulatory	↑	No restriction on foreign collaboration for establishing manufacturing base. Export of automobiles is a thrust area.
	↓	Import of second hand cars allowed.
Political	→	It is not a significant factor.
Supplier	↑	Part, components and accessories can be outsourced as many small and medium scale manufacturers are already available. Imported raw material also available.
Socio-cultural	↑	Customers preference for large and luxury cars increasing. In small car segment, preference for deluxe version is increasing.



Emerging threat from the international market because of lifting of ban on the import of second hand cars.

Note : Upward arrows  indicate favourable impact or opportunity, downward arrows indicate unfavourable impact or threat, and horizontal arrows  indicate neutral impact.

Before the formulation of strategies can be undertaken, the strategist will have to evaluate the internal environment of the organisation to determine its areas of strengths and weaknesses. Such type of analysis forms a part of SWOT analyses where the strategists determine the strengths and weaknesses by way of Organisational Analysis and opportunities and threats by way of Environmental Appraisal.

Check Your Progress C

- 1 State any two steps that can be taken for the globalisation of an economy.

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- 2 List the stakeholders of business firms.

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- 3 Enumerate the three goals of environmental scanning.

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1.8 LET US SUM UP

Business environment means the surroundings which have a direct or indirect bearing on the business activities. The nature of business environment is dynamic, complex, multifaceted and has far reaching impact on the survival, continuity and growth of the business. Because of such nature of business environment it is extremely important for every business firm to have a complete understanding of the environment in which it operates. The business environment may be classified as economic consisting of economic policies, economic system and pace of economic development; and non-economic such as socio-cultural, politico technological, and natural factors which interact with each other and provide valuable inputs for strategic decisions making .

The overall business environment is of two types – internal environment and external environment. Internal environment comprises of factors which are controllable and are within the organization such as the financial, physical or human resources; the

- value system and ethical standards; the mission, goals and objectives; etc. The external environment refers to factors which are outside the control of a business firm and provide opportunities and/or pose threats to the firm.

The external environment is broadly classified into micro environment and macro environment. Micro environment consists of forces such as customers, suppliers, competitors marketing intermediaries, workers and publics which are in the immediate contact of the business. Macro environment, on the other hand, refer to are the larger societal or physical forces such as economic environment, political and legal environment, socio-cultural environment, demographic environment, technological environment, international environment and natural environment. These forces have an impact not only on the business but also on its micro environmental players. Further, the impact of micro environmental forces varies from firm to firm but the impact of macro environmental forces is uniform on all the firms belonging to the same industry.

The overall scenario of business environment is changing at a fast speed in India. For the last ten years or so there is more political uncertainty in the country because of increasing pulls and pressures caused by coalition governments. The economic policies of liberalisation, privatisation and globalisation has changed the economic scenario in the country. The economy is now more vibrant and witnesses signs of buoyancy. Technological changes in the information, communication and computerization sectors have brought complete revolution in the country. India is also a new destination for outsourcing of many MNCs because of competitive edge it has developed in many sectors over the years. The emerging rural markets in India are providing greater opportunities to business organizations which are very keen to enter these untapped areas.

In order to set proper strategic objectives and formulate future strategies, it is necessary to make a detailed analysis of the business environment. Such analysis is known as environmental scanning. It is a process by which the business enterprises monitor their relevant environment so as to identify opportunities that could benefit them and the threats that should be avoided. Environmental scanning has to be done on continuing basis. Environmental scanning is the fundamental step in the strategic management process.

The process of environmental scanning involves the identification of key environmental variables which influence the operations of the business organization. It is followed by the identification of sources of information for environmental scanning. These sources can be primary or secondary, formal or informal, written or verbal. Then, depending upon the need of the situation, the organization may adopt a systematic approach, a processed form approach, or an ad-hoc approach, or any combination of these approaches for carrying out the environmental scanning exercise. This would result in developing a matrix of important environment factors identified as key environmental variables, showing the degree of intensity of their impact on the business of an organization, and the relative probability of such impact. This will also help the strategist to identify the issues which are of high priority, medium priority or low priority. Finally, the ETOP of an organization is prepared which helps in identifying the opportunities available in the business environment and the threats which the environment is posing to a business firm.

1.9 KEY WORDS

Business Environment : A set of forces that are outside the control of the firms and which influence the functioning of their business.

Demographic Environment : Size and composition of population in a country or a region.

Environmental Scanning : The process of analysing and monitoring the relevant environment.

External Environment : The environmental forces that are outside the control of the individual firms and which influence the functioning of their business.

Internal Environment : The internal sources of a firm which determine the degree of its strength and weakness, such as its value system, goals, physical assets, funds, etc.

International Environment : The economic, political, technological and sociological factors that operate at transnational and across the border levels.

Macro Environment : Environmental forces such as economic, socio-cultural, politico-legal, demographic, technological, etc. which have an impact not only on the business but also on its micro environmental players.

Micro Environment : Environmental forces which are in the immediate contact of the business, such as customers, competitors, suppliers etc.

Publics : Interest groups having an interest in the functioning of the business firms in a society, such as consumer groups, environmentalists media groups, etc.

1.10 ANSWERS TO CHECK YOUR PROGRESS

- 2 a) True b) False c) False
 d) True c) False f) True

1.11 TERMINAL QUESTIONS / EXERCISES

- 1 What do you understand by business environment? Discuss its importance for the business.
- 2 Distinguish between (a) Internal and external environment, and (b) micro and macro environment.
- 3 Explain briefly the major components of business environment and their impact on business.
- 4 Enumerate the important changes taking place in Indian business environment, and state the impact of emerging rural markets on business in India?
- 5 Comment on the following statements :
 - (a) The environment within which a business firm operates is highly dynamic and complex.
 - (b) Environment and management influence each other.
 - (c) Every company encounters certain publics in its environment.
- 6 Explain the concept and process of Environmental Scanning?
- 7 Write short notes on
 - (a) ETOP
 - (b) Micro Environment
 - (c) Natural Environment
 - (d) Approaches to Environmental Scanning

Note : These questions will help you to understand the unit better. Try to write answers for them, but do not submit your answers to the university for assessment. These are for your practice only.