

Business Environment

Syllabus Covered

General Environment — Demographic, Socio-cultural, Macro-economic, Legal/political, Technological, and Global; Competitive Environment.

Question 1

State with reasons which of the following statements is correct/incorrect:

- (a) *The basic objective of a business enterprise is to monitor the environment. (2 Marks May, 2007)*
- (b) *Environmental constituents exist in isolation and do not interact with each other. (2 Marks Nov., 2007)*
- (c) *"Profit may not be a universal objective but business efficiency is definitely an objective common to all business". (2 Marks May, 2008)*
- (d) *"Changes of any type are always disquieting, sometimes they may be threatening." (2 Marks May, 2008)*
- (e) *The rate and magnitude of changes that can affect organisations are decreasing dramatically. (2 Marks, June, 2009)*
- (f) *A business, even if it continually remains passive to the relevant changes in the environment, would still grow and flourish. (2 Marks Nov., 2009)*
- (g) *There is both opportunity and challenge in 'Change'. (2 Marks Nov., 2009)*
- (h) *Globalization means different things to different people. (2 Marks May, 2010)*
- (i) *The term PESTLE analysis is used to describe a framework for analyzing the micro-environmental factors. (2 Marks May, 2011)*
- (j) *The process of strategy avoids matching potential of the organization with the environment opportunities. (2 Marks, Nov., 2011)*

Answer

- (a) **Incorrect:** Monitoring environment is ancillary to basic objectives of a business enterprise. It is imperative for organisations to create and retain customers. Organisational objectives may include survival, stability, growth, profitability and like.

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Organisations monitor the changes in the environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength.

- (b) **Incorrect:** Environmental constituents such as economic, legal, society, technology and other macro and micro elements are interwoven through complex and haphazard linkages. These constituents comprise of multitude of forces that are inter-related and inter-dependent. They are termed as environment as they are outside the main periphery of business but may affect its functioning directly or indirectly.
- (c) **Correct:** It is generally asserted that business enterprises are primarily motivated by the objective of profit. Organizations pursue multiple objectives rather than a single objective in which business efficiency is a very useful operational objective. Many organizations, particularly charitable and non-government do not aim for making profits. But in general, all organizations aim for optimum utilization of resources and economy in operational costs.
- (d) **Incorrect:** Favourable changes either in the external environment or internal environment are not threatening and/or disquieting. Changes that are initiated by the management to bring improvements in its working are not always disquieting. However, sometimes changes can be threatening especially for old and weak organizations with risk averse and stodgy managers.
- (e) **Incorrect:** No, the reality is just the other way round. Business environment especially after globalisation and liberalisation is witnessing changes that are fast paced and have far-reaching implications for businesses. This is true for economic, political, technological, legal, and socio-cultural factors. This has created strong pressures on organization for proactive adaptation to environmental changes for survival growth and competitive edge.
- (f) **Incorrect:** Businesses function within a whole gamut of relevant environment and have to negotiate their way through it. A successful business has to identify appraise and respond to various opportunities and threats in its environment. The extent to which the business thrives depends upon the manner in which it interacts with environmental situations or constraints. A business remaining passive to changes in its environment is destined to gradually fade away into oblivion.
- (g) **Correct:** It is said that change is inevitable, especially in the context of business environment. Changes in the business environment from time to time throw up new issues before businesses. A right perspective of such new issues is to view them both as challenges and opportunities - challenge because appropriate action is called for and, opportunity because it opens up new potentials for the future plans that would lead to prosperous business.
- (h) **Correct:** Globalization refers to the process of integration of the world into one huge market. Such unification calls for removal of all trade barriers among countries.

Globalization is an opportunity for organizations to expand their markets and reach out to different customers. Globalization can also have other meanings. For some it is a new paradigm - a set of fresh beliefs, working methods, and economic, political and socio-cultural realities in which the previous assumptions are no longer valid. For developing countries, it means integration with the world economy.

- (i) **Incorrect:** The term PESTLE Analysis is used to describe a framework for analysis of macro environmental factors. It involves identification of political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.
- (j) **Incorrect:** In the process of strategic management an organisation continuously scan its relevant environment to identify various opportunities and threats. Organisations keen to grow and expand often look for promising opportunities that match their potential. Such opportunities become a good stepping stone for achieving the goals of the organisation.

Question 2

Can a change in the elected government affect the business environment? Explain briefly in 2-3 sentences. (2 Marks, June 2009)

Answer

The type of government running a country is a powerful influence on business. Businesses are highly guided and influenced by government actions. Change in the elected government relates to the change in political environment. To an extent, even legal environment may change with the changes in the Government. It has a strong bearing on the conduct of business as it leads to significant changes in the economic policies and the regulatory framework. It generally reflects the political ideology of the political party or alliances. The government's policy of promoting select sectors further impacts the functioning of business organizations.

Businesses are affected by the factors such as political stability, the political ideology and practices of the ruling party, the purposefulness and efficiency of governmental agencies, the extent and nature of governmental intervention in the economy and the industry, Government policies (fiscal, monetary, industrial, labour and export-import policies), specific legal enactments and framework and so on.

Question 3

Write Short notes on the following

- (a) *Role of Global Industries. (3 Marks, May 2012)*
- (b) *Characteristics of a Global Company. (3 Marks, Nov., 2012)*
- (c) *Explain the meaning of Demographic Environment. (1 Mark, Nov., 2012)*

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Answer

- (a) The term global industry specifically means an industry where a firm's competitive position in one country is affected by its position in other countries. A global industry is one that by operating in more than one country gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors. The global business organisation views the world as one market, minimises the importance of national boundaries, sources material, raises capital and markets wherever it can do the job best. The industries reveals global pattern in today's world include automobiles, television sets, commercial aircrafts and boats, sporting equipment, watches, clothing, semiconductors, copiers and also the transfer of funds.
- (b) In simple economic terms, globalization refers to the process of integration of world into one huge market. At the company level, globalization means two things:
- (i) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries and
 - (ii) it also means ability to compete in domestic markets with foreign competitors.
- The global company views the world as one market minimizing the importance of national boundaries. A global company has three attributes:
- (a) It is a conglomerate of multiple units located in different parts of the globe but all linked with common ownership.
 - (b) Multiple units draw a common pool of resources such as money, credit, patents, trade name, etc.
 - (c) The units respond to common strategy.
- (c) The term demographics denote characteristics of population in an area, district, country or in world. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, income, education, growth rate affect the business with different magnitude.

Question 4

What is meant by a Global Company? Explain briefly different strategic approaches for Globalisation by a Company. (4 + 6 = 10 Marks, Nov., 2008)

Answer

In simple economic terms globalization refers to the process of integration of world into one huge market. At the company level globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries and (b) it also means ability to compete in domestic markets with foreign competitors.

A company which goes global is also called a Multinational Company (MNC). The global company views the world as one market minimizes the importance of national boundaries. A global company has three attributes:

- (i) It is a conglomerate of multiple units located in different parts of the globe but all linked with common ownership.
- (ii) Multiple units draw a common pool of resources such as money, credit, patents, trade name, etc.
- (iii) The units respond to common strategy.

Strategic approaches:

International economic dynamics accompanied by geographical changes have changed the paradigm of global business. A firm / company which wishes to go global will be guided by the following four types of strategies:

- (i) **Multi-domestic strategy:** A multi-domestic strategy focuses on competition within each country in which the firm operates. This Strategy is adopted when a company tries to achieve a high level of local responsiveness by matching their products and services offerings to national conditions prevailing in the countries they operate in. The organization attempts to extensively customize their products and services according to the local conditions of different countries.
- (ii) **Global strategy:** A global strategy assumes more standardization of products across country boundaries. Under this strategy, the company tries to focus on a low cost structure by leveraging their expertise in providing certain products and services and concentrating the production of these standard products and services at a few favourable locations around the world. Competitive strategy is centralized and controlled by the home office.
- (iii) **Transnational strategy:** Many large multinational firms, particularly those with many diverse products, may use a multi-domestic strategy with some product lines and a global strategy with others. A transnational strategy seeks to combine aspects of both multi-domestic and global strategies. Thus there is emphasizes on both local responsiveness and global integration and coordination. Although the transnational strategy is difficult to implement, environmental trends are causing multinational firms to consider the needs for both global efficiencies and local responsiveness.

When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. The decision as to how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved through following options:

- ◆ Exporting.
- ◆ Licensing/ Franchising.

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- ◆ Joint Venture.
- ◆ Foreign Direct Investment.

Question 5

How would you analyse the meaning and importance of Efficiency and Profitability as objectives of business?
(4 Marks, Nov., 2012)

Answer

Enterprises pursue multiple objectives rather than a single objective. In general, we may identify a set of different business objectives pursued by a large cross-section of enterprises. Efficiency and profitability are two of the important objectives of any business. Efficiency is the relationship between input and output whereas profitability is the relationship between profits and investments.

Efficiency: Business enterprise seek efficiency in rationally choosing appropriate means to achieve their goals, doing things in the best possible manner and utilising resources in a most suitable combination. In a sense, efficiency is an economic version of the technical objective of productivity – designing and achieving suitable input output ratios of funds, resources, facilities and efforts. Efficiency is a very useful operational objective.

Profitability: It is generally asserted that private enterprises are primarily motivated by the objective of profit. Some may go even further and emphasise that profit is the sole motive of business enterprises. All other objectives are facilitative objectives and are meant to be serve the profit motive. It is pointed out that private business enterprises are operated on behalf of and for the benefit of the owners who have assumed the business risk of investing their funds.

Question 6

Elaborate the characteristics of Business Environment with reference to Decision Making.

(3 Marks, Nov., 2011)

“Business environment exhibits many characteristics.” Explain.

(3 Marks, Nov., 2013)

Answer

Decision making is a managerial process and function which is greatly influenced by the broad characteristics of business environment. Business environment exhibits many characteristics. These characteristics are:

- ◆ **Environment is complex:** The environment consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once the factors constituting a given environment. All in all, environment is a complex that is somewhat easier to understand in parts but difficult to grasp in totality.
- ◆ **Environment is dynamic:** The environment is constantly changing in nature. Due to the

several varied influences operating; there is dynamism in the environment causing it to continuously change its shape and character.

- ◆ **Environment is multi-faceted:** What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.
- ◆ **Environment has a far reaching impact:** The environment has a far reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environment change has an impact on the organization in several different ways.

Question 7

How would you argue that modern enterprises pursue multiple objectives and not a single objective? (4 Marks, May, 2014)

Answer

Objectives are organizations performance targets – the results and outcomes it wants to achieve. They function as yardstick for tracking an organizations performance and progress.

Today, organizations are capable of achieving multiple objectives and they focus on different objectives rather than a single objective. In general, we may identify a set of business objectives being pursued by the business. These may relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on. Organizations need to balance these objectives in an appropriate manner.

Question 8

"Environment is the sum of several External and Internal forces that affect the functioning of business." Explain. (3 Marks, May, 2012)

Answer

Business environment in which an organization exists can be broadly divided into two parts: the external and the internal. Since the environment is complex and has multiple elements of it helps to understand it better. External environmental factors are largely beyond the control of individual enterprise and are dynamic in the sense that they keep on changing. These are technological, physical, political and socio-cultural. Internal environment is the environment that has a direct impact on the business and is within the control of the entrepreneurs. These are internal management, machinery, methods of production, etc.

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Question 9

Describe two environmental changes that you expect to have a major impact on the industry:

(i) Retail Industry

(ii) Automobile Industry

(iii) Education Industry

(3 Marks, May, 2012)

Answer

All the environmental forces impact industries in varying degree. Over a period of time these may change and oscillate between dominant factors and insignificant factors. Given below number of factors (not two) have been included.

(i) Retail Industry:

- Macro environmental factors such as Technological, Economic, Demographic, Social, Legal and political.
- Rapid change in production process and product innovation.
- Foreign Direct Investment and policies thereon.
- Changes in Direct and indirect taxes
- Inflation, interest rates.
- Changes in employment / labour laws.
- Change in attitude towards health.
- Developments in IT can help in support supply chain management, logistics and transportation.

(ii) Automobile Industry:

- Macro environmental factors such as Technological, Economic, Demographic, Social, Legal and political.
- New research and development.
- Anti- pollution pressures. Use of eco-friendly cars.
- Use of alternative fuels.
- Population growth and age mix
- Rural urban ratio.
- Changes in family structure.
- Changes in income levels.
- Changes in Import & Excise Duties.

- Foreign Direct Investment.
 - Financing facilities at low interest rates.
- (iii) Education Industry:
- Macro environmental factors such as Technological, Economic, Demographic, Social, Legal and political.
 - Changes in government Policies Proposed Higher Education and Research outlays.
 - Privatization of Higher Education.
 - Availability of soft loans for higher / professional education.
 - Attitude towards education.
 - Mobility of students.
 - Income.
 - Job opportunities.

Question 10

What do you mean by micro environment of business? Explain its elements. (7 Marks, May, 2013)

Answer

The environment of business can be categorised into two broad categories micro-environment and macro-environment. Micro-environment is related to small area or immediate periphery of an organization. Micro-environment influences an organization regularly and directly. Developments in the micro environment have direct impact on the working of organizations. Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors. The elements of micro environment are specific to the said business and affects its working on short term basis.

- ◆ **Consumers / Customers:** Customers who may or may not be consumers are the people who pay money to acquire organisational products and services. Consumer is the one who ultimately consumes or uses the product or services. The marketer has to closely monitor and analyse the changes in the consumer tastes and preferences and their buying habits. Consumer occupies the central position in the market.
- ◆ **Competitors:** Competitors are the other business entities that compete for resources as well as markets. A study of the competitive scenario is essential for the marketer, particularly threats from competition.
- ◆ **Organization:** Individuals occupying different positions or working in different capacities in organizations consists of individuals who come from outside. They have different and varied interests. An organization has several non-specific elements in form of individuals and groups that may affect its activities. Owners, board of directors and employees form part of organisation.

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- ◆ **Market:** The market is larger than customers. The market is to be studied in terms of its actual and potential size, its growth prospect and also its attractiveness. The marketer should study the trends and development and the key success factors of the market.
- ◆ **Suppliers:** Suppliers form an important component of the micro environment. The suppliers provide raw materials, equipment, services and so on. Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry.
- ◆ **Market Intermediaries:** Intermediaries bridge the gap between the organisations and customers. They are in form of stockist, wholesalers and retailers. They exert considerable influence on the business organizations. In many cases the consumers are not aware of the manufacturer of the products they buy. They buy product from the local retailers or big departmental stores.

Question 11

A business enterprise is a sub-system of the larger environmental system."Discuss the relationship between the organization and its business environment. (3 Marks, May, 2013)

Answer

A business does not function in isolation, rather, it acts as a sub-system of its environment consisting of society, economy, laws, competitors and so on. Business draws certain inputs from environment in form of resources and information and transforms them into outputs. The relationship between the organization and its environment may be discussed in terms of interactions between them that can be broadly outlined as below:

- ◆ **Exchange of information:** The organization scans the external environmental variables, their behaviour and changes, generates important information and uses it for its planning, decision-making and control purposes. On the other hand, the organization itself transmits information to several external agencies either voluntarily, inadvertently or legally.
- ◆ **Exchange of resources:** The organization receives inputs — finance, materials, manpower, equipment etc., from the external environment. It sustains itself by employing the above inputs for involving or producing output of products and services. The organization is also dependent on the external environment for disposal of its output of products and services to a wide range of clientele.
- ◆ **Exchange of influence and power:** The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources, information and other inputs. The external environment is also in a position to impose its will over the organization. Governmental control, competitors, customers, suppliers, investors etc., exercise considerable power and influence over the organization. In turn, the organization itself is sometimes in a position to wield power and

influence over the external environment by virtue of its command over resources and information.

Question 12

Assume that you are an entrepreneur who has an intense desire to get into the business. What types of information relating to macro environment would you need to determine external opportunities and threats? (3 Marks, May, 2014)

Answer

Macro environment mainly consists of economic, technological, political, legal and socio-cultural elements. For an entrepreneur it is important to identify those factors that are likely to affect the new business. Each of the elements can have a bearing on the opportunities and the threats.

Particularly, he should scan the relevant changes that have happened in recent past that can provide competitive edge. For example, a technological innovation in the production process can be opportunity. Incentives such as cheaper land, tax free periods can be other form of opportunities. Entrepreneur has to identify such opportunities that can be capitalized to enter markets or provide an edge over the competitors. Entrepreneur has to also take care as these opportunities can also act as threats when competitors are able to exploit them.

Question 13

Distinguish between Micro Environment and Macro Environment (4 Marks, Nov., 2011)

Answer

The business environment consists of both the macro environment and the micro environment. Following are the differences between the two:

- ◆ The micro environment refers to the forces that are very close to the company and affect its ability to do routine functions. Macro environment refers to all forces that are part of the larger periphery and distantly affect organization and micro environment.
- ◆ Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors. Whereas macro environment includes demography, economy, natural forces, technology, politics, legal and socio-cultural.
- ◆ The elements of micro environment are specific to the said business and affects it's working on short term basis. The elements of macro environment are general environment and affect the working of all the firms in an industry.

Question 14

You have been hired as a consultant by a company to advise it on factors it need to consider for environmental scanning. Explain briefly these factors. (3 Marks, Nov., 2014)

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Answer

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success. The factors that need to be considered are explained below:

- **Events:** Events are important and specific happenings in the internal or external organisational environment which can be observed and tracked.
- **Trends:** Trends are grouping of similar or related events that tend to move in a given direction, increasing or decreasing in strength or frequency of observation.
- **Issues** are the current concerns that arise in response to events and trends. Identifying an emerging issue is more difficult.
- **Expectations** are the demands made by interested groups in the light of their concern for issues.

Question 15

In your view what are the Key Success Factors for operating in a competitive market place?

(3 Marks, Nov., 2014)

Answer

KSFs are the rules that shape whether a company will be financially and competitively successful. Important key success factors for operating in competitive markets are:

- ◆ Cost structure of the market.
- ◆ The price sensitivity of the market.
- ◆ Technological structure of the market.
- ◆ The existing distribution system of the market.
- ◆ Is the market mature?

Question 16

Write a short note on Strategic responses to business environment.

(4 Marks, Nov., 2014)

Answer

The business organization and its many environments have innumerable interrelationships that at times it becomes difficult to determine exactly where the organization ends and where its environment begins. It is also difficult to determine exactly what business should do in response to a particular situation in the environment. Strategically, the businesses should make efforts to exploit the opportunity and avoid the threats.

In this context following are the approaches:

- (i) **Least resistance:** Some businesses just manage to survive by way of coping with their changing external environments. They are simple goal-maintaining units. They are very

passive in their behaviour and are solely guided by the signals of the external environment. They are not ambitious but are content with taking simple paths of least resistance in their goal-seeking and resource transforming behaviour.

- (ii) **Proceed with caution:** At the next level, are the businesses that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in that environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength. This is a sophisticated strategy than to wait for changes to occur and then take corrective-adaptive action.
- (iii) **Dynamic response:** At a still higher sophisticated level, are those businesses that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful. They not merely recognise and ward off threats; they convert threats into opportunities. They are highly conscious and confident of their own strengths and the weaknesses of their external environmental 'adversaries'. They generate a contingent set of alternative courses of action to be picked up in tune with the changing environment.

Question 17

Explain the factors that affect the strength of competitive pressures from substitute products.

(3 Marks, Nov., 2012)

Answer

Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. With regards to substitute products, factors such as prices, easy availability, and how best they are able to satisfy the needs of customers, determine the amount of competition through them. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

Question 18

Industry is a composite of competitive pressures in five areas of the overall market. Briefly explain the competitive pressures.

(3 Marks, Nov., 2011)

What are the five competitive forces in an industry as identified by Michael Porter?

(10 Marks, Nov., 2009)

Answer

Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength

and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the over all market. These five forces are:

1. **Threat of new entrants:** New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.
2. **Bargaining power of customers:** This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.
3. **Bargaining power of suppliers:** Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.
4. **Rivalry among current players:** The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being changed, advertising, and pressures on costs, product and so on.
5. **Threats from substitutes:** Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength *of* these five competitive forces determines the scope to earn attractive profits. The strength *of* the forces may vary from industry to industry.

