

## BUSINESS ENVIRONMENT

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### 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.* (May, 2007)
  - (b) *Environmental constituents exist in isolation and do not interact with each other.*  
(Nov., 2007)
  - (c) *"Profit may not be a universal objective but business efficiency is definitely an objective common to all business".* (May, 2008)
  - (d) *"Changes of any type are always disquieting, sometimes they may be threatening."*  
(May, 2008)
  - (e) *The rate and magnitude of changes that can affect organisations are decreasing dramatically.* (June, 2009)
  - (f) *A business, even if it continually remains passive to the relevant changes in the environment, would still grow and flourish.* (Nov., 2009)
  - (g) *There is both opportunity and challenge in 'Change'.* (Nov., 2009)
- (2 Marks each)

### 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. 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

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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.

### Question 2

*Briefly answer the following question in 2-3 sentences:*

*Can a change in the elected government affect the business environment? Explain.*

*(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

*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:

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- (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.
- ◆ Joint Venture.
- ◆ Foreign Direct Investment.

### Question 4

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

*(10 Marks)(Nov., 2009)*

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

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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.

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