CHAPTER 1 – BUSINESS ENVIRONMENT

1. OBJECTIVES OF A BUSINESS

4. **Efficiency**:

Nov 2012

To ensure attractive profits and other qualitative aspects related to the business.

5. **Profitability**: Nov 2012

Profit making is the main, but not the only objective, of any business. It is also the primary unit or yardstick of measurement of performance and efficiency of a business.

2. ENVIRONMENTAL INFLUENCES ON BUSINESS

1) ***Business does not function in an isolated world***.
2) To be successful business has to not only recognise different elements of the environment but also respect, adapt to or have to manage and influence them.
3) The business must continuously monitor and adapt to the environment if it is to survive and prosper.
4) A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

3. PROBLEMS IN UNDERSTANDING THE ENVIRONMENTAL INFLUENCES

1) ***The environment encapsulates many different influences***;
2) ***The second difficulty is that of uncertainty***
3) ***Managers are no different from other individuals in the way they cope with complexity.***

4. FRAMEWORK TO UNDERSTAND THE ENVIRONMENTAL INFLUENCES

- ✓ Firstly, analyse environment in terms of how uncertain it is.
- ✓ Identify which environmental influences are likely to affect the organization's development or performance.
- ✓ Final step is to focus more towards the immediate environment of the organization.

5. ENVIRONMENTAL ANALYSIS PM

Environmental Analysis refers to **detailed evaluation** of the external environment, in terms of the opportunities and threats, and the internal environment, in terms of the strengths and weaknesses like SWOT analysis.

Basic and Additional Goals

1) To provide an understanding of current and potential changes taking place in the environment.
2) To provide inputs for strategic decision making.
3) To facilitate strategic thinking in organisations.

For example developments in the legal environment including introduction of new direct tax code, limited liability partnership, GST, etc. have their own bearing on the business.

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6. CHARACTERISTICS OF BUSINESS ENVIRONMENT

Nov 2013 | Nov 2011

1) **Environment is complex** -
2) **Environment is dynamic**
3) **Environment is multi-faceted**:
4) **Environment has a far reaching impact**:

7. COMPONENTS OF BUSINESS ENVIRONMENT → SWOT

8. RELATIONSHIP BETWEEN ORGANIZATION AND ITS ENVIRONMENT

May 2013

The relationship between an organisation and its environment may be discussed in terms of interactions between them in several areas, which are as follows:

1) Exchange of Information
2) Exchange of Resources
3) Exchange of Influence and Power

9. THE MICRO AND MACRO ENVIRONMENT

May 2013

Micro-environment	Macro-environment
It refers to all the factors which are specific to an organisation and impart strengths or cause weaknesses of a strategic nature. These affect the organisation on an immediate basis but are relatively controllable.	It refers to all the factors which are common for all organisations, provide opportunities or pose threats to them and are relatively uncontrollable. May 2014
These factors include the following: a) Market b) Organisation c) Intermediaries d) Suppliers e) Consumer/Customer f) Competitors May 2013	The factors include the following: a) Demographic environment b) Economic environment c) Political-legal cum Government environment d) Socio-cultural environment e) Technological environment f) Competitive environment g) Global environment

Environmental Scanning

- ✓ Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.
- ✓ The factors which need to be considered for environmental scanning are events, trends, issues and expectations. These factors are explained below:
  a. ***Events*** → important and specific occurrences
  b. ***Trends*** → general tendencies or the courses of action along which events take place.
  c. ***Issues*** → current concerns that arise in response to events and trends.
  d. ***Expectations*** are the demands made by interested groups.

Nov 2014

10. ELEMENTS OF MACRO ENVIRONMENT

a) **Demographic Environment** → May 2013
   a. Population Size
   b. Geographic Distribution
   c. Ethnic Mix → reflects the changes in the social value system
   d. Income Distribution

b) **Economic Environment** → like resource markets, interest rate, inflation rate etc.

c) **Political-legal Environment** → three imp. elements in political-legal environment
   a. Government
   b. Legal
   c. Political

d) **Socio-cultural Environment** → collection of social factors affecting a business and includes social traditions, values and beliefs etc.

e) **Technological Environment** → includes scientific advancements and changes of manufacturing, banking, communication etc. The key questions that can be asked in assessing the technological environment are as follows: PM
   a. What are the technologies used by the company?
   b. What additional technologies will be required?
   c. How critical is each technology to each of these products and businesses?
   d. Which technological investments should be curtailed or eliminated?

f) **Competitive Environment** → a collection of various firms with same, similar or substitute products.

Cooperation in a Competitive Environment
   a) **Cartels** → groups of firms in an oligopoly acting together
   b) **Explicit contracts** → Firms may identify some common interest for cooperation between them and act accordingly.
   c) **Keiretsu** → set of companies with interlocking business relationships and share holdings.
   d) **Family Ownership**.

g) **Global Environment** → ***Three Characterstics of a Global Company***:
   a. It is a conglomerate of multiple units, but all linked by common ownership.
   a. Multiple units draw on a common pool of resources, such as money etc. Nov 2012
   b. The units respond to some common strategy Nov 2013

Strategic Approaches for Globalisation PM
a) *Multi-domestic strategy* → customize products/services as per local conditions.
b) *Global strategy* → same product worldwide
c) *Transnational strategy* → mix of multi-domestic and global.

Why do companies go global
a) Rapid shrinking of time and distance due to faster communication.
b) Domestic markets are no longer enough to absorb whatever is produced
c) To reduce high transportation costs in case of exports to remote countries.

Manifestation of Globalisation
a) Configuring anywhere in the world
b) Interlinked and interdependent economies
c) Lowering of trade and tariff barriers
d) Increasing trend towards privatization
e) Market-side efficiency

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f) Formation of regional blocks
g) Mobility of skilled resources

11. *PESTLE ANALYSIS*

A framework for analysis of macro environmental factors.
The Key Factors →

a) Political factors	b) Economic factors
c) Social factors	d) Technological factors
e) Legal factors	f) Environmental factors

12. *STRATEGIC RESPONSES TO THE ENVIRONMENT*

Nov 2014

a) Least resistance → just manage to survive
b) Proceed with Caution → reactive type of response
c) Dynamic Response → proactive type of response

13. *PORTER'S FIVE FORCES MODEL - COMPETITIVE ANALYSIS*

Porter's five forces model of competitive analysis is a tool for assessing the main competitive forces in any industry and their strength and importance to an organization.

Nov 2009 Nov 2011

a) Rivalry among current players
b) Threat of new entrants
c) Bargaining power of customers
d) Bargaining power of suppliers
e) Threats from substitutes

The way one uses the five-force model to determine what competition is like in a given industry to build the picture of competition in three steps:

Step 1: Identify the specific competitive pressures associated with each of the five forces.

Step 2: Evaluate how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).

Step 3: Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits.
