

**International Business**  
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**Lecture – 16**  
**International Business Environment, Environmental Analysis, (PESTEL) Analysis,**  
**Culture and Business**

Welcome friends to the course of International Business. So, we have discussed by now, what is international business, why it is so important and what is its nature and what basic objectives does it have. And how companies try to get into other countries, and what modes of entry they use for the purpose. For example, one of the biggest advantages of you know international business is that it helps in increasing trade, it helps in movement of the factors of production. So, it helps in development of the economy overall.

And second thing is that with globalization the scope for international business has increased, right. So, and companies have found it, had it has help companies to find newer markets. For example, today India is one of the most sought after markets because the most of the European countries, the developed countries they find this huge market of India to be very attractive and with a growing economy they find it still more attractive because peoples purchasing power is increasing and they have more disposable income with them.

So, today we will start with what is international business environment and what are the factors in involved in it, right.

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The slide is titled "Introduction" and contains the following text:

Business decisions, particularly strategic ones, need a clear identification of the relevant variables and a detail and in-depth analysis of them to understand their impact and implications for the organization.

**For example,**

- What are the threats posed by the liberalization ?and
- what are the opportunities unfolded by the liberalization?

**A thorough analysis of the environment is necessary for finding answer of these questions.**

*"The purpose of environmental analysis is to identified the existing and emerging threats and opportunities to help formulate appropriate strategies"*

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So, what it is says I starts with it is that business decisions particularly the strategic ones, right. So, strategic ones is so like, expansion in a new market, maximizing profit, right, and may be reducing the input costs; need a clear identification of the relevant variables and a detail in depth analysis of them to understand their impact and implication of for the organizations.

So, when a company is getting into a newer market it has to understand. So, the different variables involved with it. For example, what are the threats posed by the liberalization? So, because of globalization and liberalization what threats have come in, has there been any threats or is it all the only the gains? What are the opportunities unfolded by the liberalization, what gains it has may given? Right. As you know there has been criticism against globalization also, right.

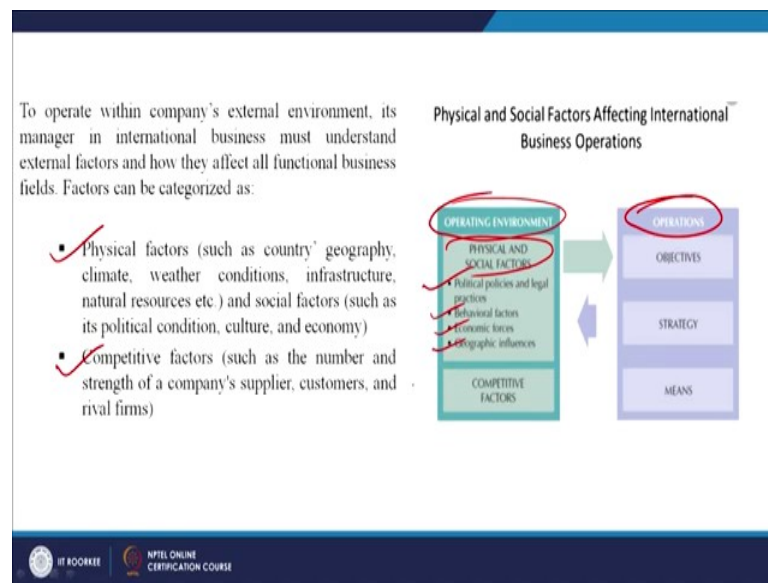
So, there have been economist who have and socialist who have critically you know criticized the concept of globalization because they feel according to some of them that globalization has brought in you know more rich richness for those people who are already rich and the poor become poor, right. So, this is a critical you know, this is a kind of a remark or a criticism against globalization.

So, they feel that the developed countries, they want to exploit the underdeveloped countries and that is by the advocate globalization. And the underdeveloped countries they are they would only be exploited and their resources would be drained off and they

would not gain much out of it, right. So, a thorough analysis of the environment is necessary for finding answers of these questions.

The purpose of environmental analysis while doing a business is to identify the existing and emerging threats and opportunities to help formulate appropriate strategies. So, once we understand the environment, so business environment, so accordingly we can create the right strategies for that.

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So, to operate within company's external environment, so there is an external environment and there is an internal environment. So, its managers, the managers in the firms, right must understand the external factors and how they affect all functional business fields, right. Factors can be categorized as physical factors, right. So, what are the physical factors? For example, the country's geography, climate, weather conditions, infrastructure available, natural resources, etcetera, right

For example, India is a very blessed country and India has got huge amount of resources raw materials. Many African countries are also blessed with lot of raw materials. But on the other hand, but they are still under developed, at least India is developing country, but most of the African countries are underdeveloped. On the other hand, if you see country like Japan and to some other maybe some other countries also they do not have resources, but they are still developed countries, ok.

So, here we are talking about the physical factors and the social factors such as the political condition, right, the culture and economy of the country. Now, because of a mix of these things the physical factors and the social factors, it affects the country's business environment, ok; then, competitive factors such as the number and strength of a company's supplier, customers and rival firms.

So, if I am a maker of auto and I want to get into a new market, I would like to know what kind of suppliers are available, raw material, suppliers, the component suppliers are available or not and where are they present, how many what kind of customers are available, what is their need, what is their demand, and who are my competitors in the market. So, all these things would affect my business strategy, right. So, this is all it says. The physical and you know the this is the operating environment and this is the operations, right.

So, the physical and social factors, the political, behavioral, economic, geographical and the competitive factors taken together they affect the strategy formation for the company.

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**Stages of Environmental Analysis**

The process of environmental analysis is divided into four stages

- ✓ 1. Scanning the environment to detect warning signals: Identification of emerging/ensuing trends
- ✓ 2. Monitoring specific environmental threats: It entails perspective follow-up and a more in-depth analysis of the relevant environmental trends identified at the scanning stage
- ✓ 3. Forecasting the direction of future environmental changes: qualitative and quantitative manner
- ✓ 4. Assessing current and future environmental changes for their organizational implications

**For example:**

1. The demand for baby food has decreased because of birth control. The demand for prepared food has increased with the increase in number of working women. This is an opportunity for few organizations such as fast food restaurants but on other hand it is a problem for manufacturer of furniture with the increase of unmarried singles, as some people don't buy furniture until their marriage.
2. Record stores have vanished due to no business as people are more towards downloading songs from internet

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When we come to stage of environmental analysis we say there are four stages basically. The first we start with scanning the environment. Now, why do you want to scan the environment? Just to, we scan the environment to detect the warning signals. It could not necessarily be all the time warning signals, it could sometimes be positive signals also,

so positive signals also. Sometimes there might be emerging trend which if you do not look into, you might lose a big business opportunity, right.

You see the same thing happened with if you compare with India and China. China although has been always commended as being a manufacturing lab of the world, half of the world. But they could not compete with India when it came to the IT sector or the service sector because in that India had an advantage, because India understood the signal much better than China. But when it comes to manufacturing China understood that the world market would be competing on prices and they started working on it to their advantage.

So, scanning the environment to understand the signals sometimes is very important to understand signals for your positive benefit, positive gain or maybe to understand any adverse effect that is going to come. May be a potential threat, a potential war, a potential change in taxations, a potential change in of you know policies of a government these are signs that firms need to understand very carefully, so that they can keep themselves always safe and they can grow.

Second thing that it talks about is monitoring the specific environmental threats. It entails perspective follow up and more in depth analysis of the relevant info environmental trends identified at the scanning stage. So, what are the environmental trends? Right.

So, we will look into it third point it says is the forecasting the direction of future environmental changes. Now, what are the things that are going to come? And that is done basically this forecasting is done through a qualitative or a quantitative manner. So, qualitative manner we do it through you know focus group discussions, through Delphi method and in quantitative we use regression and other techniques to understand what is the future change that is going to come up in the environment, business environment.

The last is the assessing the current and future changes for the organizational implications, ok. Now, let us see some examples. The demand for baby food has decreased because of birth control practices in many countries. So, for example, India and China being one of the most populous country, and China adapted that one child policy and India has been always you know trying to explain the people through public forums, TVs and you know other media that the population needs to be controlled. So, 2

people, family can have maximum 2 children. So, because of such kind of procedures there has been slight decrease in the birth population in India and China.

Now, this has led also whom, the baby food manufacturers because the demand has gone down. The demand for prepared food on the other hand has increased with increase in the number of working women. As more women have started working which is a positive thing for any economy, but the other side is that that has created a demand for prepared food, right. So, industries which are into prepared food they have got a sudden rise in demand.

So, this is an opportunity for few organizations such as fast food restaurants, but on the other hand it is a problem for manufacture of furniture, with the increase of unmarried singles as some people do not buy furniture until their marriage. Now, you see for food industry it was good, for the furniture industry may not be that good.

Even for the you can see the jewellery market. For example, gold and ornament markets because in India when there is a marriage there would be more of you know selling, but if marriages people are getting single mothers and single parent concepts are coming up live in concepts are coming up. So, that would affect the this market because people who might not buy as in bulk as they would have been; had there been a proper marriage.

Record stores have vanished. You know due to no business as people are moving towards downloading the songs from the internet that is a very interesting thing. So, today you have a mobile, you have internet facility, you can download wherever you are and whenever you feel. So, this record store, music records they are slowly feeling the heat and some have even vanished.

What are the approaches to the environmental analysis?

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**Approaches to Environmental Analysis**

1. Outside – in ( Macro ) Approach ✓
2. Inside – Out ( Micro ) Approach

**Macro approach** takes a broad view of business environment with a long-term perspective and develops alternative scenarios of the future. The implications of the alternative scenarios for the industry and organization are drawn up with reference to different scenarios.

Scenario is a detailed description of how certain events may occur in the future and their consequences for the organization.

**Micro approach:** It takes a rather narrow view of the environment, forecasts the immediate future environment on the basis of ongoing environmental monitoring and derives the implications of it for the industry and firm out of it.

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So, two measure approaches, one is an outside in, that means, from outside you look towards the inside and the other is from an inside you look towards the outside.

So, the first one we call as the macro approach, the second one we call as the micro approach. So, when you are looking from inside to outside, it is a micro approach. When you are looking from outside to inside, it is a macro approach. So, the macro approach takes a broad view of business environment with a long term perspective, it takes a long term perspective and develop scenarios for the future, alternative scenarios for the future.

The implications of these scenarios for the industry and organization are drawn up with reference to different scenarios. Now, what is a scenario? A scenario is a detailed description of how events may occur in the future and their consequences.

Now, it is very important that organization should be more futuristic in nature. They have to understand that today a products that are existing might not exist tomorrow and the futures product might be very different from what you are serving today. If and you see how true this is because of because companies had not understood in the past. If you look at the fortune 500 companies list may be 50 years back what was then and you look at the fortune 500 companies today you will see that many of the large companies are not even existing, they are not in the picture, they do not even will they are not there.

So, the point is through a scenario building, a scenario building is like a story building, so where you try to create a scenario by taking several variables several features for example, peoples time you know, their schedule, busy schedule, their change in their health, their structural changes, their family changes, you know their living style changes. All these things would lead to different kinds of products in demand coming in demand.


So, tomorrow you see today India is having a joint till now, we will say a nuclear family, but then still we live with the parents; but in some countries in the west when the person attains an age of 18, around 16, 17, 18, so he looks for himself or herself. Now, that would lead to a higher demand maybe of insurance products, maybe higher demand for real estate products like housing and all.

So, because today we were living in a single house and tomorrow everybody wants to have its own space. So, that would have may be more TVs in demand. So, these kind of things would be coming up and industries can realize what can be the future products that would be required.

In the micro approach, it takes a rather narrow view of the environment and forecast the immediate future environment on the basis of the ongoing environmental monitoring and derives the implications of it for the industry. So, this talks about the present problems, right and looks into the present problems and tries to forecast the needs of the products, right. So, these are the basic approaches, one you have to look it from a long term perspective and the other is a immediate perspective.



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**PESTEL Analysis**

**PESTEL Analysis**  
An important and widely used tool that helps present the big picture of a firm's external environment in *political, economic, sociocultural, technological, environmental, and legal contexts*, particularly as related to foreign markets; analyzes for market growth or decline and, therefore, the position, potential, and direction for a business.

*Understanding PESTEL is critical prior to enter into a new country or region because home environment does not give assurance that same strategies will also work in other countries.*

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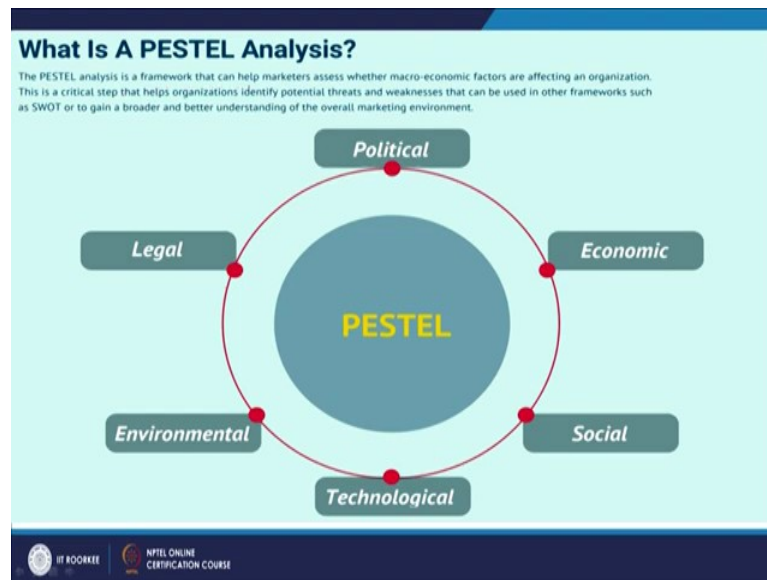
One method that we use in international business while studying international business is called PESTEL analysis which we use largely to understand the different factors that affect business environment.

Now, what is this PESTEL all about? It says it is an important widely used tool that helps present the big picture of a firm's external environment in P political, E economic, S sociocultural, T technological, E environmental and L legal context. Particularly as related to the foreign markets, it analyzes for market growth or decline and therefore, the position potential and direction for a business.

So, without a PESTEL analysis it is very very difficult to actually understand the market, one company, suppose a company wants to enter into a new market. So, what are the potential, what is the condition, what is the position of the threats the potential may be advantages that one can take from that country: so, these things to understand a PESTEL analysis is very important.

Understanding PESTEL is critical prior to enter into a new country or region because home environment does not give assurance that same strategies will also work in other countries.

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So, this is how it looks like. So, you can see it says a PESTEL analysis is a framework that can help marketers assess whether macroeconomic factors are affecting an organization. This is a critical step that helps organizations identify potential threats and weaknesses that can be used in other frameworks such as SWOT, strength, weakness opportunity threat which we use in marketing or to gain a broader and better understanding of the overall marketing environment. So, this is the PESTEL analysis and these are the six components of it, right.

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**Cultural Factors**

**Culture** refers to the learned norms based on values, attitudes, and beliefs of a group of people.

- Culture is an integral part of a nation's operating environment
- Every business function is subject to potential cultural differences (Based on nationality, ethnicity, religion, gender, work organization, profession, political party membership and income level etc.)

*For example, Influence of Western Culture in India, has given rise to growth in products such as denim, pizza and burgers etc.*

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So, let us start with a fact very important factor that affects the business environment that is the culture of a country. Now, let us see what is culture. Culture for example, refers to the learned norms based on values, attitudes and beliefs of a group of people, right.

It is integral part of a nations operating environment, right. Every business function is subject to potential cultural differences based on their nationality, ethnicity, religion, gender, work organization, profession, political party membership, income level etcetera, right.

You see an example. Influence of western culture in India has been very high, right. So, this has given rise to growth in some products such as the denim jeans, right, pizza and burgers. Earlier days if you ask and if you would have spoken to an Indian may be 30 years back or 25 years back maybe many of the people would not have heard of some things like you know pizza, burger or even you know corn flakes, right.

So, what is the staple diet in India? Paratha, upma, you know idli, dosa, so these are the staple diets, right you use for breakfast and all. So, these things now have given way to new things. So, the market has changed. So, the cultural change influences the business environment very severely, ok.

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Now, this is how we have tried to understand culture, we should understand culture. So, culture is a center point which is connected with several or can be explain this by these

peripheral connecting points. So, for example, you see belief, language, customs in a particular place, rituals being you know in a particular place, behavior of the people, faith and religion, food, art, drama, music etcetera attitudes, right.

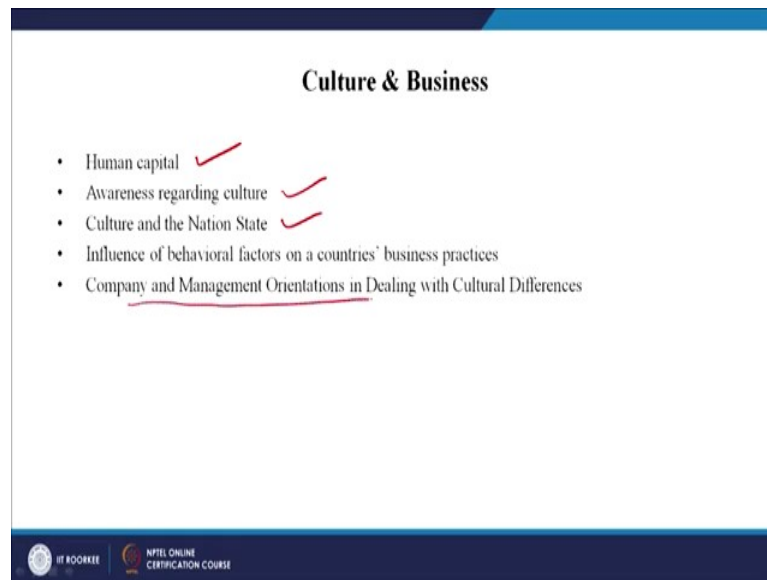
Now, for example, if I take a few, now if you look at India for example, we have diverse you know languages, we have so many different languages. And they say that in India every 26 kilometer the language changes, so right. So, you can understand from that how many different languages India has got, right, in terms of our customs and rituals, right. ah

If you go to some states in India even you know generally when we do a ritual or a pooja for, worshipping, generally it is a it is 99.9 percent time, it is all the time it is a we use vegetarian things like fruits, vegetables or whatever for the pooja and especially fruits. But there are also poojas or there are worshipping methods in which fish is offered to the deity, animal you know sacrifices are done, like for example, in some places they offer lambs and other things, right.

So, the religion, the rituals, the customs are varying, right. So, the way we dress up for example, if you go to the eastern side of India it will be dhoti, right south it is dhoti and kurtha. Maybe and if you go to some other side depends on the climate because at one side it is highly you know the climate is so much of what you say there is lot of it is a tropical climates or lot of sweat happens and all. And if you come to the north side of India it is less of that. So, people are wearing a full dresses, right. So, it changes.

If you look at the faith India has so many different cultures like religions for example, Hinduism is there, Buddhism, Christianity, Muslim, Islam. So, all these are there. The food habits are also different. So, some places in India, it is more of you know you know very spicy eating and in some places it is not. And if you look at the different dances in India for example, in the where you have Odissi, Bharatanatyam, Kathakali, Kuchipudi you know these are the different dance forms. So, all these taken together would describe the you know the culture of India, right.

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So, how does culture and business, what is the relationship between culture and business? So, you see after all the first thing that comes when you talk about business is requirement of human capital, right. So, when we talk about human capital, right. Awareness regarding culture. What is the awareness level of people regarding their culture or for example, if a foreign company comes to India are they aware of the Indian culture? If no, maybe they will have trouble.

Culture and the nation state: so, what is the you know every nation has its own cultures. So, that is what we are talking about, how they are described. So, for example, some are more famous as a technology country, some are more of a labor intensive country. Influence of behavioral factors on a countries business practice. What are the behavioral practices, factors and how they affect the business practice? And finally, the company and management orientations in dealing with the cultural differences: so, let see one of them, each one of them.

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**Human Capital**

Business involve people: every business employs, sales to, buy from, and is owned and regulated by people that is subject to potential cultural differences.

**1. Cultural diversity**

Fostering **cultural diversity** can allow a company to gain a global competitive advantage by bringing together people of diverse backgrounds and experience.

**For example:** According to the Accenture company website, it added more than 1,800 employees of diverse backgrounds in 2017 up from approximately 1,000 in 2016. The company increased the number of women in its workforce to 37%, a 1% increase from the previous year, and a step toward the company's goal of at least 40% women by 2020. Multicultural women make up 17% of the workforce. In addition, approximately 2,300 of employees had a disability, which is 4.5% of the workforce.

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So, every firm when you talk about they you know they require human capital or the people, right. So, the business people business involves people: every business employs, sales to, they sell something, they buy something from, and is owned and regulated by people, right. So, how these people and the culture effects business?

So, cultural diversity fostering cultural diversity can allow a company to gain a global competitive advantage by bringing together people of diverse backgrounds and experience.

Now, this is an example I have shown here. According to the Accenture company website it added more than 1800 employees of diverse backgrounds in two thousand seventeen up from approximately 1000 in 2016.

The company increase the number of women its workforce to 37 percent which was an increase of 1 percent from the previous year, right. And they have move towards the company's goal of at least 40 percent women by 2020. So, multicultural woman make up 17 percent of the workforce. In addition, approximately 2300 of employees had a disability which is 4.5 percent of the entire work force, right of this company. So, this is how you know companies are handling their human capital or the people.

Now, second thing when we talk about culture, right.

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**2. Cultural clashes** ✓

- Major problems of cultural collision may occur because a firm implements practices that do not reflect local customs and values and/or its employees are unable to accept or adjust to foreign behaviors.
- Employees encounter distress because of difficulty in accepting or adjusting to foreign behaviors

Companies or managers need to decide when to make cultural adjustments and firms must be sensitive to predict and control its relationships and operations.

**For example: HP and Compaq**

In 2001, struggling computing giant Hewlett Packard announced it would acquire similarly struggling competitor Compaq. The merger was ill-fated from the start, as critics pointed out how the HP engineering-driven culture was based on consensus and the sales-driven Compaq culture on rapid decision making. This poor cultural fit resulted in years of bitter infighting in the new company, and resulted in a loss of an estimated 13 billion dollars in market capitalization. Though the merger itself was widely regarded as a failure, the company has hung on, and has been able to make significant cultural and leadership changes that have resulted in long-term success.

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So, after human; so, there are cultural clashes. Now, what are cultural clashes? Major problems of cultural collision may occur because a firm implements practices that do not reflect local customs and values or its employees are unable to accept or adjust to the foreign behaviors. So, culture when there is a mismatch of culture this is a big problem. Employees encounter distress because of difficulty in accepting or adjusting to the foreign behaviors.

So, so this cultural adjustments and firms must be sensitive to predict them are very important terms. So, let us take this example. So, if you look at these example in 2001, Hewlett Packard and you know Compaq, they merged with each other, right. These two struggling giants computing giants they merged, but the merger was ill fated from the very beginning as critics pointed out how HP which is a which has a engineering driven culture was based on consensus and sales driven Compaq culture on rapid decision making.

So, HP was on more of discussion and coming to a consensus and on the other hand Compaq was an a sales driven and rapid decision making. So, this poor cultural fit resulted in years of bitter fighting, infighting in the company and resulted in a loss of an estimated 13 billion dollars in market capitalization. Though the merger itself was widely regarded as a failure the company was hung on, and has been able to make significant

cultural leadership changes in the long term success and that have resulted in the long term success.

So, anyway, so if this these things could have been predicted from the very before you know from beforehand from the very beginning maybe this huge loss of 13 billion dollars could have been avoided and it would have been much lesser maybe, right.

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**Awareness regarding culture**

- Problem areas that can hinder managers' cultural awareness are
  - *Subconscious reactions to circumstances* ✓
  - *The assumption that all societal subgroups are similar*
- Business people can learn to improve awareness and sensitivity and, by educating themselves, as they enhance the likelihood of succeeding on foreign soil.
- The best way to study a foreign culture is directly go there and interact with the people.
- Consult with knowledgeable people at home and abroad.
- Access to many recent studies that determine cross-cultural attitudes and preferences.
- Example of a Japanese and American engineer working together in a plant.
- Recent case of train departure in Japan

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Third thing is the awareness regarding the culture, how aware are the foreign firms when they enter into new cultures, right. So, the problems problem areas that can hinder manager's cultural awareness are subconscious reactions to circumstances, the way subconsciously we react that is because it is you know embedded in our gene, it is we are coded that way. So, that needs to be properly handled, ok: the assumptions that all societal subgroups are similar, ok.

So, business people can learn to improve awareness and sensitivity by educating themselves. So, educating is the best form of training, right. So, when you have a subconscious way of thinking or a subconscious way of reacting, you can may be change that by educating yourself and training yourself as they enhance the likelihood of succeeding on foreign soil. This would help in succeeding in the other countries.

The best way to conduct a foreign culture is directly go there and interact with the people. Consult with the knowledgeable people at home and abroad, who have a



understanding of the both the cultures. Access to the lot of studies that are available that to determine cross cultural attitudes and preferences.

One example which I have brought here is the Japanese and American engineer working together in a plant, right. So, when two people suppose a Japanese and American work together, they have very different cultures, right. The Japanese is one who goes for a 100 percent, right defect free and the American would think maybe a 98 percent, 99 percent is good enough. So, for that 1 percent wasting too much of time does not make sense.

So, this is sometimes you know, there is a joke which is always said that an American firm asked a Japanese firm for you know a product and they said it should be at least 99 percent of good quality. So, what happened is after few days they got the consignment, so they got two consignments, one was a big packet and there was a small packet.

So, in which it was written we are sorry for the delay and it happened because we could make the 100 percent defect you know defectless products, but we did not know how to make it a 1 percent defective. So, because the American had said a 99 percent defect, right defect free. So, that is the kind of thinking in between the American and the Japanese. This is a joke: so, just to tell how the two people think differently, right.

Recently there was a train departure in Japan in which interestingly it was not a delay, but rather it went one a few seconds early, right. And the entire government the railway department apologias to the country to the people of you know Japan saying that we are sorry for the inconvenience. So, this is the kind of culture that Japanese have when it comes to time and punctuality. So, if one does not understand this and does not pay attention to these things then it would be a difficult situation.

Well, what I will do is I will stop here and we will continue from here in the next lecture. So, understanding, see in the nutshell if I would like to say is that, understanding business environment is very very critical. And what affects business environment is one of the thing is like we said we are talking about now is culture. So, the culture affects the business very hugely.

There is a very classic case of even you know when I talk in classes I say about this about the Kellogg's case in India. When Kellogg's came to India and they found that their products was not being accepted because the Indians culture, the way of eating you

know their breakfast was very different. They use hot milk instead of cold milk. And while using hot milk what happens the cornflakes do not remain crispy anymore. So, that is a kind of a cultural difference that affects business, right.

There are umpteen number of examples which I can sight, and maybe we will talk about in the next lecture. So, for today this is all we have.

Thank you very much.